

92-2274

A	AMD INC	10Q	03-31-92
B	BAKER (J.) INC	10Q	04-30-92
C	CENTURY LABORATORIES INC	10Q	02-29-92
D	CLUB AMERICA INC	10Q	01-31-92
E	EX-CEL RESOURCES INC	10Q	06-30-91
F	EXECUTIVE OFFICE GROUP INC	10Q	12-31-91
G	FARREL CORP	10Q	01-26-92
H	FIRST CASH INC	10Q	01-31-92
I	FIRST HARTFORD CORP	10Q	01-31-92
J	FLAME INDUSTRIES INC	10Q	01-31-92
K	GRUDGE MUSIC INC	10Q	01-31-92
L	HUGHES TEXAS PETROLEUM CORP	10Q	03-31-92
M	INMAC CORP	10Q	01-25-92
N	NATIONAL BEVERAGE CORP	10Q	01-25-92
O	NORCAP FINANCIAL CORP	10Q	03-31-92
P	SCIOTO DOWNS INC	10Q	01-31-92
Q	SIGMA ALPHA ENTERTAINMENT GROUP LTD	10Q	01-31-92
R	SYSTEMS ASSURANCE CORP	10Q	01-31-92
S	TELETIMER INTERNATIONAL INC	10Q	01-31-92
T	WASTE TECHNOLOGY CORP	10Q	01-31-92
U	WELLINGTON HALL LTD	10Q	01-31-92

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q



92 16 1735

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1992 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 33-23786-LA

AMDIL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0188822

(I.R.S. Employer Identification No.)

36 South Chester Avenue
Pasadena, California

(Address of principal executive offices)

91106

(Zip Code)

(818) 356-9895

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Applicable only to corporate issuers:

As of May 8, 1992, the Registrant had outstanding 13,431,586 shares of its common stock, par value \$.001.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMD, INC.

(A Development Stage Company)
Consolidated Balance Sheets
(Unaudited)

ASSETS

	<u>December 31,</u> <u>1991</u>	<u>March 31,</u> <u>1992</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 61,214	\$ 170,193
Accounts receivable (Note 5)	-	-
Prepaid expenses	-	-
TOTAL CURRENT ASSETS	<u>61,214</u>	<u>170,193</u>
Equipment net of accumulated depreciation of \$15,596 and \$19,747 respectively (Note 1)	60,795	63,876
Patents in process, net of accumulated amortization of \$17,497 and \$19,684 respectively (Note 1)	<u>70,000</u>	<u>67,813</u>
TOTAL ASSETS	<u>\$ 192,009</u>	<u>\$ 301,882</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES		
Notes payable	\$ 450,000	\$ 500,000
Accounts payable and accrued expenses	271,841	244,910
Accrued payroll (Note 6)	106,320	153,240
Accrued payroll taxes	53,704	17,291
Other accrued liabilities	<u>50,542</u>	<u>60,292</u>
TOTAL CURRENT LIABILITIES	<u>932,407</u>	<u>975,733</u>
STOCKHOLDERS' DEFICIT (Notes 1 and 8):		
Common stock, \$.001 par value- 50,000,000 shares authorized, 13,431,586 shares issued and outstanding at December 31, 1991 and March 31, 1992 respectively	13,432	13,432
Preferred stock, 10,000,000 shares authorized, no shares issued or outstanding at December 31, 1991 and March 31, 1992	-	-
Additional paid-in capital	676,767	676,767
Deficit accumulated during the development stage	<u>(1,430,597)</u>	<u>(1,364,050)</u>
TOTAL STOCKHOLDERS' DEFICIT	<u>(740,398)</u>	<u>(673,851)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 192,009</u>	<u>\$ 301,882</u>

The accompanying notes are an integral
part of these financial statements.

AMDL, INC.
(A Development Stage Company)
Statements of Operations
(Unaudited)

	For the Three Months Ended March 31, <u>1992</u>	For the Three Months Ended March 31, <u>1991</u>	From Inception on July 10, 1987 through March 31, <u>1992</u>
REVENUES	\$ -	\$ -	\$ -
EXPENSES (Notes 6,7, and 8)	233,453	161,089	(2,398,333)
OTHER INCOME (Note 5)	<u>300,000</u>	<u>957</u>	<u>1,034,283</u>
NET INCOME (LOSS) (Note 1)	<u>\$ 66,547</u>	<u>\$ (160,132)</u>	<u>\$ (1,364,050)</u>
EARNINGS (LOSS) PER SHARE	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>

The accompanying notes are an integral
part of these financial statements.

AMDL, INC.
(A Development Stage Company)
Statement of Stockholders' Deficit
From Inception on July 10, 1987 Through March 31, 1992
(Unaudited)

	Common Stock		Preferred Stock		Additional	Deficit
	Shares	Amount	Shares	Amount	Paid-in	Accumulated
					Capital	During the
						Development
						Stage
BALANCE, December 31, 1987	-	\$ -	-	\$ -	\$ -	\$ -
Common stock issued	1,275	1,275	-	-	-	-
Net loss	-	-	-	-	-	(37,323)
BALANCE, December 31, 1988	1,275	1,275	-	-	-	(37,323)
Restatement due to merger of common stock (Note 1)	8,865,307	7,591	-	-	48,201	-
Common stock issued (Note 8)	1,347,880	1,348	-	-	54,996	-
Net loss	-	-	-	-	-	(251,479)
BALANCE, December 31, 1989	10,214,462	10,214	-	-	103,195	(278,802)
Common stock issued (Note 8)	3,157,124	3,158	-	-	565,147	-
Net loss	-	-	-	-	-	(107,415)
BALANCE, December 31, 1990	13,371,586	13,372	-	-	668,342	(386,217)
Common stock issued (Note 8)	60,000	60	-	-	8,425	-
Net loss	-	-	-	-	-	(1,044,380)
BALANCE, December 31, 1991	13,431,586	13,432	-	-	676,767	(1,430,597)
Net loss	-	-	-	-	-	66,547
BALANCE, March 31, 1992	<u>13,431,586</u>	<u>\$ 13,432</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 676,767</u>	<u>\$ (1,364,050)</u>

The accompanying notes are an integral
part of these financial statements.

AMDL, INC.
(A DEVELOPMENT STAGE COMPANY)
Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31, 1992	For the Three Months Ended March 31, 1991	From Inception on July 10, 1987 Through March 31, 1992
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 66,547	\$ (160,132)	\$ (1,364,050)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	6,338	4,572	39,431
Stock issued for services	-	-	293,416
Change in operating assets and liabilities:			
Decrease in accounts receivable	-	100,000	-
(increase) decrease in prepaid expenses	-	3,000	-
Increase (decrease) in accounts payable and accrued expenses	<u>(6,674)</u>	<u>(7,628)</u>	<u>475,733</u>
Net Cash Provided (Used) in Operating Activities	<u>66,211</u>	<u>(60,188)</u>	<u>(555,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment	(7,232)	-	(83,623)
Expenditures for patents in process	<u>-</u>	<u>-</u>	<u>(87,497)</u>
Net Cash Provided (Used) in Investing Activities	<u>(7,232)</u>	<u>-</u>	<u>(171,120)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuances of common stock	-	-	339,716
Net effect of merger with CVI	-	-	37,067
Loan from shareholder	<u>50,000</u>	<u>-</u>	<u>500,000</u>
Net Cash Provided (Used) in Financing Activities	<u>50,000</u>	<u>-</u>	<u>896,783</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,979	(60,188)	170,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>61,214</u>	<u>95,019</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 170,193</u>	<u>\$ 34,831</u>	<u>\$ 170,193</u>
NON-CASH FINANCING ACTIVITIES:			
Common stock issued for services	\$ -	\$ -	\$ 293,416
CASH PAID FOR:			
Interest	-	-	-
Income taxes	-	-	-

The accompanying notes are an integral part of these consolidated financial statements.

AMD, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

1. Summary of Significant Accounting Policies

a. Organization and Nature of Business

AMD, INC. (formally Advanced Medical Diagnostic, Ltd.) (the Company) was incorporated July 10, 1987, in the state of Delaware, however, no financial activity occurred until 1988. The Company is a development-stage company committed to the development of an accurate, dependable, low-cost broad-based cancer detection technology (see Note 2).

On January 16, 1989, the officers/shareholders of the Company entered into a share exchange agreement (the Agreement) with California Ventures, Inc. (CVI) and its officers which provides for the combining of the two companies in a transaction accounted for as a reverse acquisition. CVI is a development-stage enterprise located in Colorado that was formed on May 3, 1988, for the purpose of engaging in mergers with or acquiring a single or small number of private firms.

Under the Agreement, the principal officers/shareholders of the Company exchanged all of their shares of common stock for 113,000,000 shares (shares indicated do not reflect the reverse stock split on a 1-for-15 basis in 1989) of previously unissued and unregistered shares of CVI common stock. Subsequently, the domicile of CVI was changed to Delaware and its name was changed to AMD, Inc.

Even though CVI is the legal entity surviving the transaction, the Company is considered to be the acquiring company for accounting purposes because the former shareholders of the company hold the majority of the outstanding shares of the combined companies. This transaction was treated as a reverse acquisition for financial reporting purposes, wherein substantively the Company acquired CVI with the accounts of CVI reflected at their book value from the date of acquisition forward. No goodwill was recorded at the acquisition date.

In connection with the transaction, the Company received approximately \$57,000 in cash, which was used for working capital and to expand the business.

The Company is in the development stage and has not generated any revenues from operations and has no assurance of future revenues. Additionally, the Company has minimal liquid assets. In order to finance the operations of the Company and further development, additional capital is required. There is no assurance that the Company will be able to obtain sufficient additional funds when needed, or that such funds, if available, will be obtainable on terms satisfactory to the Company.

ANDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

1. Summary of Significant Accounting Policies (Continued)

Management has taken action to address these matters. They include:

- Retention of experienced management personnel with particular skills in the successful completion of cash generating licensing agreements, etc.
- Attainment of technology to detect cancer (see Note 2).

Additionally, the Company has unsecured notes payable which were due in April 1992. The Company is currently in default on its principal and interest payments. Management is currently attempting to renegotiate the loans. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company plans to seek additional debt or equity financing, although no commitments have been received.

b. Licensing Agreements

The Company recognizes as income the sale of options to purchase the marketing rights of its proposed cancer detection products when cash is collected or collection is certain. The proceeds from the sale of the options are non-refundable.

c. Equipment

Equipment is depreciated on the straight-line basis over five years which is the estimated useful lives of the related assets.

d. Patents in Process

The Company has expended funds for patents that are in various stages of the filing and approval process. Patents in process are depreciated on the straight-line basis over an estimated useful life of 10 years.

e. Common Stock

The Company issued common stock for certain services rendered during 1989, 1990 and 1991 (see Note 8). The common stock issued was valued at the then existing fair market price, as determined by management and the board of directors of the Company. Management and the board of directors considered market price quotations and other factors in determining fair market price for purposes of valuing the common stock.

AMDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

1. Summary of Significant Accounting Policies (Continued)

f. Loss per Share

Loss per share was computed based on the weighted average number of shares outstanding for the period. The effect of stock options and warrants on loss per share is antidilutive and thus not included in the loss per share calculation.

g. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Assignment of Technology

During October 1988, the Company received an assignment of all rights, title and interest in a particular technology invented and developed for the detection of cancer. The Company paid \$1.00 for such technology and no costs related thereto were previously incurred by the inventor.

The Company's products, to the extent they may be deemed medical devices or biologics, are governed by the Federal Food, Drug and Cosmetics Act and by the regulations of state agencies and various foreign government agencies. The Company's proposed test system and other clinical products intended for diagnostic or therapeutic use in humans are subject to certain clearance procedures administered by the FDA. The Company has not yet applied for FDA approval of its proposed products. There can be no assurance that the Company will ever receive the regulatory approval required to market its proposed products or that the FDA will review the product within the average period of time.

3. Notes Payable

Notes payable consists of the following:

	<u>1991</u>	<u>1992</u>
Unsecured notes to individuals, corporations and trusts, interest accruing at 10 percent per annum, principal and interest due in April 1992	\$ 390,000	\$ 390,000

AMDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

3. Notes Payable (Continued)

Convertible demand note payable to an officer and director of the Company. The note is noninterest bearing until June 1992, after which interest accrues at 8%. The note is convertible into 142,857 shares of common stock of the Company upon request of the note holder at a price of \$.42 per share.

<u>60,000</u>	<u>110,000</u>
<u>\$ 450,000</u>	<u>\$ 500,000</u>

4. Income Taxes

The Company has not had any operating revenue since inception. As such, no provision for income tax has been made for the years ended December 31, 1991, 1990, and 1989, due to net operating losses. At December 31, 1991, the Company has available for federal and state income tax purposes, net operating loss carryforwards of approximately \$1,430,000 and \$715,000 respectively, which expire in the years 2003 through 2007. These net operating loss carry forwards are also available for financial reporting purposes.

The Company has elected to defer the application of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," until the fiscal year ending December 31, 1993. Adoption of the new standard will result in a catch-up adjustment that may be reported in the year the standard is implemented or in an earlier year if the Company elects retroactive application. Management presently anticipates that the adoption of the new standard will not have a material impact on the Company's financial position or results of operations.

5. Licensing Agreements

Effective January 1989 and revised in May and October 1989, the Company entered into a licensing agreement with a Canadian company to market and sell the Company's proposed cancer detection products in Canada, directly or through agents, distributors, etc. The Company has the right to receive \$1.00 each for the first 500,000 test kits sold for a maximum of \$500,000 in licensing fees. The Company received approximately \$120,000 as an initial non-refundable licensing fee in 1989.

AMDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

5. Licensing Agreements (Continued)

receive \$1.00 each for the first 500,000 test kits sold for a maximum of \$500,000 in licensing fees. The Company received approximately \$120,000 as an initial non-refundable licensing fee in 1989.

In June 1990, the Company sold options to purchase the marketing rights to Great Britain, Australia and New Zealand for \$60,000, non-refundable. The exercise period of the options is six months from the time the Company files its patent applications for its test kits in the countries within the subject regions and is prepared to test up to 100 human sera in a blind study designed to provide an evaluation of the proposed products, which were not completed as of December 31, 1991. The purchase price of the marketing rights under option is \$1,000,000 for Australia and New Zealand and \$2,000,000 for Great Britain. The purchase price entitles the purchaser to purchase 1,000,000 units for Australia and New Zealand and 2,000,000 units for Great Britain at a discount of \$1.00 per unit and thereby recoup the cost of the marketing rights.

In June 1990, the Company sold an option to purchase the marketing rights for Europe for \$300,000, non-refundable. The option period is six months from the date the Company files its patent application and is ready to perform up to 100 tests as explained above, which have not been completed as of December 31, 1991. The purchase price of the marketing rights under option is \$5,000,000. The exercise of the option entitles the purchaser to purchase up to 5,000,000 units of the Company's products at a discount of \$1.00 per unit and thereby recoup the cost of the marketing rights.

In October 1990, the Company sold an option to acquire exclusive marketing and distribution rights to the Company's proposed cancer detection products for human application in all other countries in the world except the U.S. and any countries previously optioned by the Company. The optionee agreed to pay \$500,000 for such option, \$100,000 was paid upon execution of the agreement, \$50,000 was paid on or before November 21, 1990, \$100,000 was paid on February 6, 1991, and the balance of \$250,000 is due upon the completion of certain events. As of December 31, 1991, the Company had received the non-refundable balance of the option price.

The agreement provides that the optionee may exercise separate options upon the payment of \$2,500,000 for Japan, \$1,000,000 for North and South Korea, \$500,000 for China, \$1,000,000 for South America, \$500,000 for Central America, \$1,000,000 for the U.S.S.R., \$500,000 for Taiwan, and \$500,000 for the other countries in the world except the U.S. and the countries previously optioned by the Company.

AMDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

5. Licensing Agreements (Continued)

The options are exercisable for a single six-month period commencing with the date the Company is prepared to perform up to 100 tests in each region as described above. The agreement also provides that if the options are exercised, the Company will discount the standard wholesale per unit price of its products to the purchaser by \$1.00 per unit until it has sold a sufficient number of products in each region to recoup the purchase price paid for that region.

6. Related Party Transactions

During 1991, and 1992, the Company had incurred \$435,779, and \$64,626, respectively, of consulting fees to officers of the Company. The remaining unpaid balance at December 31, 1991 and March 31, 1992, was \$106,320 and \$156,904, respectively, and is included in accrued payroll.

7. Commitments and Contingencies

Employment Agreement

The Company paid Dr. Donald Rounds \$60,000 for research services through August 27, 1991. In September 1991, the Company entered into three year employment agreements with each of Louis R. Dilts, Dr. Robert R. Guerrero and Dr. Donald Rounds. The employment agreements, as amended, for Drs. Guerrero and Rounds provide for an annual base salary of \$90,000 per year. The employment agreement, as amended, for Mr. Dilts provides for an annual base salary of \$98,000 per year. The employment agreements contain severance provisions generally indicating that if any of the agreements are terminated by the Company prior to its expiration without cause, the terminated employee shall be entitled to a severance payment in the amount of \$48,000. The agreements also provide for customary insurance, vacation and sick leave benefits and contain nondisclosure provisions and covenants not to compete. In addition, the agreement with Mr. Dilts provides for an automobile allowance not to exceed \$400 per month, and an annual cash bonus determined based on the Company's operating profit as follows: two percent of the first \$1,500,000; and three percent of the next \$1,500,000; four percent of the next \$1,500,000; and five percent of each \$1,500,000 thereafter, up to a maximum bonus of \$1,000,000 in any single calendar year.

In September 1991, the Company also entered into termination and severance agreements with Dr. Richard Anderson and

AMD, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

7. Commitments and Contingencies

Employment Agreement (Continued)

Thomas V. Tilton, founder and former officers and directors of the Company. The agreements with Messrs. Tilton and Anderson provide that such persons shall remain employed by the Company through November 30, 1991, at their historical compensation of \$7,500 per month for three months, and shall thereafter receive a severance payment in the amount of \$48,000; however, the agreements provide that such payments shall be consolidated and paid in 12 monthly installments of \$5,875 each, commencing September 1, 1991. The agreements also provide for the continued payment of medical insurance premiums through February 28, 1992, and contain nondisclosure provisions and covenants not to compete.

8. Capital Transactions

a. Common Stock

CVI sold to the public 733,333 units of common stock prior to the merger date. The units were offered at a purchase price of \$.15 per share per unit. Each unit consisted of one share of the Company's \$0.001 par value common stock and two common stock purchase warrants. One warrant (the A warrant) entitles the holder thereof to purchase one share of common stock at \$0.60 per share during the period commencing on the date of the prospectus (October 11, 1988) and terminating two years thereafter. The other warrant (the B warrant) entitled the holder thereof to purchase one share of common stock at \$1.05 per share during the period commencing on the date of the prospectus (October 11, 1988) and terminating three years thereafter. The warrants are separately transferable and tradeable from the common stock immediately after the closing of the offering (December 1988). The terms of the A and B warrants were extended through October 10, 1992. However, neither the A or B warrants are exercisable in the absence of a current registration statement under SEC regulations. The Company has the right to redeem the A and/or B warrants upon thirty days written notice to the holders thereof at \$0.0015 per warrant beginning three months after the date of the prospectus (October 11, 1988). The Company received net proceeds of approximately \$80,000 from this public offering.

In 1989, the shareholders approved a reverse split of the common stock on a 1-for-15 basis. All common stock and loss per share data has been adjusted to reflect the effects of the reverse split. In addition, the number of shares of common stock authorized was reduced and the par value was changed to \$0.001 per share from \$0.0001 per share.

AMDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

8. Capital Transactions (Continued)

Subsequent to the merger on January 16, 1989, the following common stock transactions occurred:

1989

The Company issued 1,179,880 shares of common stock at \$0.001 per share for services rendered.

The Company issued 146,000 shares of common stock under a private placement agreement.

The Company issued 22,000 shares of common stock at \$0.001 per share for underwriting fees.

1990

The Company issued 300,000 shares of common restricted stock at \$0.25 per share to three officers as compensation for back salary owed by the Company.

The Company issued 30,000 shares of common restricted stock at \$1.00 per share for services rendered.

The Company issued 14,000 shares of common stock at \$0.50 a share in lieu of paying a \$7,000 finder's fee.

The Company expanded the private placement memorandum of September 21, 1989, to authorize 1,000,000 shares from the original authorization of 400,000 shares and extended the expiration date to September 15, 1990. An additional 451,000 shares were issued under this private placement agreement.

The Company sold 230,000 shares in a negotiated transaction with three parties at \$0.25 per share.

The Company authorized and issued 90,000 shares of common stock at \$0.04 per share, to one of its board directors.

The Company issued 15,000 shares at \$0.04 per share to a private party.

The Company issued 1,477,124 shares at \$0.0015 under a restricted stock agreement with Dr. Donald Rounds (see Note 7). Said shares vest over a period of time and are subject to certain conditions.

The Company issued 500,000 shares of common stock at \$0.25 per share for services rendered.

AMDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

8. Capital Transactions (Continued)

The Company authorized 200,000 shares of restricted common stock at \$1.00 per share as compensation under a consulting agreement, of which 50,000 shares were issued in fiscal year 1990. On April 16, 1991, the consulting agreement was terminated and no further shares were issued. (See Note 7)

1991

The Company issued 50,000 shares of common stock at \$0.001 per share as compensation under a consulting agreement.

The Company issued 10,000 shares of restricted common stock at \$0.25 per share pursuant to conversion of a \$2,500 loan. The loan was negotiated and made during 1990.

b. Benefit Plans

On May 3, 1988, the Company adopted an Incentive Stock Option Plan (the Stock Option Plan) under which options granted are intended to qualify as "incentive stock options" under Section 422A of the Internal Revenue Code of 1954, as amended (the code). Pursuant to the Stock Option Plan, options to purchase up to 266,667 shares of the Company's common stock may be granted to employees of the Company. The Stock Option Plan is administered by the board of directors, which is empowered to determine the terms and conditions of each option, subject to the limitation that the exercise price cannot be less than the market value of the common stock on the date of the grant (110 percent of the market value in the case of options granted to an employee who owns 10 percent or more of the Company's common stock) and no option can have a term in excess of 10 years (five years in the case of options granted to employees who own 10 percent or more of the Company's common stock). No options have been granted under the Stock Option Plan as of March 31, 1992.

The Company adopted in 1992 the 1992 Stock Option Plan. Under the plan, incentive stock options and nonqualified options may be granted to officers and key employees of the Company for the purchase of up to 1,000,000 shares of the Company's common stock. Additionally, specific option grants may also be made. Expiration dates for the options may not exceed 10 years from the date of grant. In connection with the adoption, specific option grants for the purchase of 3,622,500 shares with an exercise price of \$.25 per share were granted.

ANDL, INC.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 1991 and March 31, 1992

8. Capital Transactions (Continued)

c. Stock Options and Warrants

In October 1990, the Company issued three-year warrants to purchase up to 300,000 shares of the Company's common stock at an exercise price of \$4.00 per share to its investment banking consultants. The warrants were granted at an exercise price of not less than the estimated fair market value of the common stock at the date of grant. As of March 31, 1992, no warrants had been exercised.

The Company granted options to two of its directors and legal counsel to purchase 100,000 shares each of common stock at \$1.00 per share. The options were granted at an exercise price of not less than the estimated fair market value of the common stock at the date of grant. As of March 31, 1992, no options had been exercised.

9. Subsequent Events

In April 1992, the Company entered into an agreement to purchase certain equipment by entering into a capital lease transaction. Future principal and interest payments are due as follows:

1992	\$ 21,987
1992	<u>101,456</u>
	123,443
Less - amounts representing interest	<u>(23,443)</u>
	<u>\$100,000</u>

10. Commitments

In January of 1992 the Company received a raw-material (sales) royalty for \$300,000. The raw-material (sales) royalty entitles the owner to a 5% royalty on future sales of the Company's test kits in Canada and the United Kingdom.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Changes in Financial Condition

Since inception, the Company has been in the development stage and has devoted its resources to research and development of its proposed cancer detection products. The Company has not completed development of its products and has not generated any revenues from product sales. Funding for the Company's activities has come principally from sales of securities and from sales of options to acquire marketing rights. Although the Company recorded net income for the three months ended March 31, 1992, the Company maintains a working capital deficit. At March 31, 1992, the Company's current assets were \$170,193, while its current liabilities were \$975,733. Accordingly, the Company's current liabilities exceeded its current assets by \$805,540. In addition, on March 31, 1992, the Company's current liabilities included notes payable of \$500,000, of which \$390,000 is past due. The Company intends to request an extension from these noteholders, who have rights of conversion to the common stock of the Company, but no assurance can be given that extensions will be granted or any conversions made by the holders of the notes.

Since March 31, 1992, the Company has borrowed \$275,000 pursuant to promissory notes which bear interest at the rate of 12 percent per annum and are due the earlier of March 31, 1993 or the closing of a public offering by the Company of equity securities for cash in an amount equal to or greater than \$2,000,000. In addition, for each \$1 in debt, the Company has agreed to issue Warrants entitling the holder to purchase one share of the Company's common stock for \$.25. Accordingly, Warrants will be issued to purchase 275,000 shares of the Company's common stock.

Subsequent to March 31, 1992, the Company entered into a letter of intent with a broker-dealer in securities for a prospective underwriting of shares of convertible preferred stock in the approximate amount of \$8,000,000. The price of the convertible preferred stock will be determined immediately prior to the offering, and is expected to be determined, in part, by the then current bid price for the Company's common stock. It is presently unknown when the offering will be made. The offering will be made only by means of a Prospectus which will be part of a Registration Statement. The Company anticipates filing a Registration Statement in the near future. The completion of the offering will depend upon many factors, including the Company's progress in its research and development activities as well as certain factors which are beyond the Company's control, including market conditions. The completion of the offering is not assured.

Changes in Results of Operations

In January 1992, the Company entered into a Letter of Agreement with AMDL Canada, Inc. The subject of the Agreement is the reagent being developed for the Company's test kit. AMDL Canada has acquired a royalty interest in the raw material on a per unit test basis sold in Canada and the United Kingdom to the extent of 5 percent of the list price per test kit. For this royalty, AMDL Canada paid to the Company \$300,000. This payment was the sole source of income for the Company for the three months ended March 31, 1992. The Company incurred expenses of \$233,453, resulting in net income of \$66,547. For the three months ended March 31, 1991, the Company had income of \$957, and expenses of \$161,089. The Company incurred a loss of \$160,132 for the three months ended March 31, 1991. The Company does not anticipate receiving any income during the current quarter.

PART II - OTHER INFORMATION

Item 3. Defaults Upon Senior Securities.

In early 1991, the Company borrowed an aggregate of \$390,000 from purchasers of the Company's unsecured convertible notes in a private placement. The notes bear interest at 10% per annum and are unpaid. No noteholder has declared the Company in default. The Company intends to request an extension, but there can be no assurance that noteholders will convert their notes or otherwise forbear from collection efforts.

Item 5. Other Information.

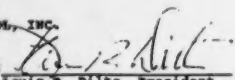
As more particularly discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations Section above, the Company intends to undertake a public offering of convertible preferred stock. The Company presently has no shares of preferred stock outstanding. A Registration Statement is anticipated to be filed in the near future and is subject to review by the Securities and Exchange Commission. The offering will be made only by means of a prospectus. There can be no assurance of completion of any offering by the Company.

SIGNATURES

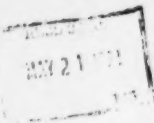
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 29, 1992

AMDI, INC.

By: 

Louis R. Dilts, President



B
92-227462

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ [X]

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 2, 1992

OR

☐ []

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

PROCESSED BY

26-12-X

MAY 22 1992

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Microfilmed by

Q-Data Corp. - St. Petersburg, FL

Commission file no. 0-14681

J. BAKER, INC.

(Exact name of Registrant as specified in its Charter)

Massachusetts
(State of Incorporation)

04-2866591
(I.R.S. Employer Identification No.)

65 Sprague Street, Readville, Massachusetts 02137
P.O. Box 231, Hyde Park, Massachusetts 02136
(Address of Principal Executive Offices)

Registrant's telephone number, including area code
(617) 364-3000

**BEST COPY
AVAILABLE**

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

The number of shares outstanding of the registrant's common stock as of May 2, 1992 was 10,641,660.

J. BAKER, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
May 2, 1992 (Unaudited) and February 1, 1992

	May 2, 1992	February 1, 1992
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,429,183	\$ 2,539,749
Accounts receivable	32,782,430	27,992,555
Merchandise inventories	176,780,857	162,845,546
Prepaid expenses	<u>6,004,936</u>	<u>4,509,478</u>
Total current assets	216,997,406	197,887,328
Property and equipment at cost	71,584,965	67,497,125
Less: accumulated depreciation and amortization	<u>30,381,987</u>	<u>28,206,737</u>
	41,202,978	39,290,388
Other assets	<u>58,775,815</u>	<u>59,525,892</u>
	<u>\$316,976,199</u>	<u>\$296,703,608</u>
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities:		
Current portion of long term debt	\$ 5,000,000	\$ 5,000,000
Accounts payable	86,574,406	88,603,609
Accrued expenses	3,587,169	5,173,156
Income taxes payable	<u>388,773</u>	<u>-</u>
Total current liabilities	95,550,348	98,776,765
Deferred income taxes	8,827,000	8,827,000
Other liabilities	762,360	794,520
Excess of net assets over cost of acquired business	3,416,185	3,778,285
Long term debt	68,400,000	45,800,000
Senior subordinated debt	33,762,805	33,714,605
Stockholders' equity	<u>106,257,501</u>	<u>105,012,433</u>
	<u>\$316,976,199</u>	<u>\$296,703,608</u>

See accompanying notes.

J. BAKER, INC. AND SUBSIDIARIES
Statements of Consolidated Earnings
For the Quarters Ended May 2, 1992 and May 4, 1991
(Unaudited)

	Quarter Ended <u>May 2, 1992</u>	Quarter Ended <u>May 4, 1991</u>
Sales	\$100,382,967	\$108,632,596
Cost of Sales	<u>63,516,279</u>	<u>63,378,746</u>
Gross Profit	45,866,688	45,253,850
Selling, Administrative & General Expenses	37,696,467	37,858,249
Depreciation and Amortization	<u>3,428,651</u>	<u>3,155,000</u>
Operating Income	4,741,570	4,240,601
Net Interest Expense	<u>2,280,759</u>	<u>2,663,088</u>
Earnings Before Income Taxes	2,460,811	1,577,513
Taxes on Earnings	<u>910,000</u>	<u>560,000</u>
Net Earnings	<u>\$ 1,550,811</u>	<u>\$ 1,017,513</u>
Net Earnings per Share	\$ <u> .15</u>	\$ <u> .10</u>
Number of Shares Used to Compute Net Earnings per Share	<u>10,635,781</u>	<u>10,189,797</u>
Dividends Declared per Share	\$ <u> .015</u>	\$ <u> .015</u>

See accompanying notes.

J. BAKER, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Quarters Ended May 2, 1992 and May 4, 1991
(Unaudited)

	<u>May 2, 1992</u>	<u>May 4, 1991</u>
Cash flows from operating activities:		
Net earnings	\$ 1,550,811	\$ 1,017,513
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization:		
Fixed assets	2,175,250	1,917,000
Deferred charges, intangible assets and deferred financing costs	1,301,600	1,280,750
Change in:		
Accounts receivable	(4,789,875)	(5,308,900)
Merchandise inventories	(13,935,311)	(5,657,923)
Prepaid expenses	(1,495,458)	(1,029,994)
Accounts payable	(2,029,203)	1,485,284
Accrued expenses	(1,585,987)	(2,262,273)
Income taxes payable	388,773	396,000
Other liabilities	<u>(32,160)</u>	<u>(11,966)</u>
Net cash used in operating activities	<u>(18,451,560)</u>	<u>(8,174,509)</u>
Cash flows from investing activities:		
Capital expenditures for:		
Furniture and fixtures	(4,087,840)	(1,595,177)
Other assets	(565,423)	(1,776,067)
Net cash paid in acquisition of Casual Male	(300,000)	(383,064)
Additional amount paid in connection with acquisition of WearGuard stores	<u>(230,987)</u>	<u>-</u>
Net cash used in investing activities	<u>(5,184,250)</u>	<u>(3,754,308)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	22,600,000	6,400,000
Proceeds from issuance of common stock	84,863	3,015
Payment of dividends	<u>(159,619)</u>	<u>(152,842)</u>
Net cash provided by financing activities	<u>22,525,244</u>	<u>6,250,173</u>
Net decrease in cash and cash equivalents	(1,110,566)	(5,678,644)
Cash and cash equivalents at beginning of period	<u>2,539,749</u>	<u>5,948,694</u>
Cash and cash equivalents at end of period	<u>\$ 1,429,183</u>	<u>\$ 270,050</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 3,885,065</u>	<u>\$ 4,389,171</u>
Cash paid (received) for income taxes, net	<u>\$ (59,607)</u>	<u>\$ 159,223</u>

See accompanying notes.

J. BAKER, INC. AND SUBSIDIARIES
NOTES

1] The accompanying unaudited consolidated financial statements, in the opinion of management, include all adjustments (which consist only of recurring accruals) necessary for a fair presentation of the Company's financial position and results of operations. Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the current presentation. The results for the interim periods are not necessarily indicative of results that may be expected for the entire fiscal year.

2] Net earnings per share is based on the weighted average number of shares of Common Stock outstanding. Stock options are excluded from the calculation since they have less than a 3% dilutive effect.

3] On April 26, 1990, Ames Department Stores, Inc. ("Ames"), a principal licensor of the Company, filed for protection under Chapter 11 of the Bankruptcy Code. Subsequent to the bankruptcy filing, Ames closed 227 stores during the year ended February 2, 1991, and the Company liquidated its inventory in those stores.

During the first quarter of fiscal 1993 Ames closed an additional 77 stores and the Company liquidated its inventory in these stores. Sales in these units were \$18.2 million in the year ended February 1, 1992 and \$1.7 million and \$4.1 million in the quarters ended May 2, 1992 and May 4, 1991, respectively.

At the time of the bankruptcy filing, the Company had outstanding accounts receivable of \$13.7 million due from Ames. In addition, carried on the consolidated balance sheet at May 2, 1992 in Other Assets are deferred lease acquisition costs of \$28.4 million attributable to the license agreement with Ames, which agreement expires in 2009.

Under bankruptcy law, Ames has the option of continuing (assuming) the existing license agreement with the Company or terminating (rejecting) that agreement. Pending Ames' election, the Company continues to operate in the remaining 371 Ames stores. The Company intends to continue to amortize the deferred lease acquisition costs of the license agreement with Ames over the remaining term of the agreement, since the Company believes, based on its assessment of the likelihood and level of ongoing business with Ames, that the value of the license agreement exceeds the historical carrying cost at May 2, 1992. Any closing by Ames of additional stores will likely reduce the value of the Ames license agreement to a level below the current carrying value of the deferred lease acquisition costs. This would result in a non-operational and non-cash write-down of the asset, which would be reflected in the Company's earnings. The amount of the write-down would depend on the Company's historical sales volume in the closed stores.

If the license agreement is assumed by Ames, Ames must cure all defaults under the agreement and the Company would collect in full the outstanding past due accounts receivable. The Company has no assurance that the agreement will be assumed or that Ames will continue in business. Although the Company believes that rejection of the license agreement or cessation of Ames' business is not probable, in the event that the agreement with Ames is rejected, or Ames does not continue in business, the Company believes that it will have a substantial claim against Ames for damages. If such a claim is necessary, the amount realized by the Company, relative to the carrying values of Ames-related assets, will be based on the facts and circumstances at such time.

4] On September 25, 1991, the Company purchased from WearGuard Corporation approximately \$5.3 million in assets for 415,723 shares of the Company's common stock. Pursuant to the terms of the transaction, during the quarter ended May 2, 1992 the Company was required to pay additional cash consideration of \$230,987 to WearGuard Corporation as the amount by which the average price at which WearGuard Corporation sold its acquired shares during a 90 day period beginning on November 27, 1991 was less than \$12.64 per share. The acquired assets consist primarily of the inventory and fixed assets of the 29 WearGuard retail stores acquired by the Company. The Company also assumed the leases to each of the acquired stores and acquired a license to operate retail stores under the WearGuard name.

The acquired WearGuard stores specialize in providing rugged, durable clothing and footwear designed for the working man as well as uniforms for nurses and laboratory technicians. The WearGuard retail stores generated sales of \$5.0 million in the quarter ended May 2, 1992.

J. BAKER, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of Operations

All references to fiscal 1993 and fiscal 1992 relate to the years ending January 30, 1993 and February 1, 1992, respectively.

First Quarter Fiscal 1993 versus First Quarter Fiscal 1992

In the first quarter of fiscal 1993, net sales increased by \$750,000 or 0.7% over net sales in the first quarter of fiscal 1992. This was primarily attributable to an increase in sales of \$10.3 million in the Company's newly acquired specialty apparel operations. The increase in sales in the apparel operations was primarily attributable to \$5.0 million in sales in the newly acquired WearGuard chain, an increase of 22.0% in comparable apparel store sales (comparable apparel store sales increases/decreases are based upon comparisons of weekly sales volume in apparel units which were open in corresponding weeks of the two comparison periods) and an increase in the number of Casual Male stores in operation during the period. The increase in sales was partially offset by a decrease of \$9.6 million in sales in the Company's footwear operations. This decrease was primarily attributable to a decrease in the average number of retail licensed shoe department locations operated during the period and a 6.9% decrease in comparable retail footwear store sales. (Comparable retail footwear store sales increases/decreases are based upon comparisons of weekly sales volume in licensed departments and Parade of Shoes stores which were open in corresponding weeks of the two comparison periods.) The sales decrease in the footwear operations was partially offset by an increase in wholesale sales.

Cost of sales constituted 58.1% of sales in the first quarter of fiscal 1993 as compared to 58.3% in the first quarter of fiscal 1992. The decrease was attributable primarily to an increase in apparel sales which have a lower cost of sales as compared to footwear sales. This decrease was partially offset by an increase in markdowns. The cost of sales for the footwear and apparel operations was 60.0% and 52.4% in the first quarter of fiscal 1993 as compared to 60.1% and 51.9% in the first quarter of fiscal 1992, respectively.

Selling, administrative and general expenses decreased \$162,000 or 0.4% as compared to the first quarter of fiscal 1992. As a percentage of sales, selling, administrative and general expenses were 34.5% in the first quarter of fiscal 1993 as compared to 34.8% in the first quarter of fiscal 1992. This percentage decrease was primarily due to a comparable store sales increase in apparel operations, which caused fixed selling, administrative and general expenses to be a lower percentage of sales than in the prior period, which was partially offset by a relative increase in sales in the apparel operations, which have higher selling, administrative and general expenses as compared to footwear sales.

Depreciation and amortization expense increased by \$274,000 in the first quarter of fiscal 1993 over the first quarter of fiscal 1992 due to an increase in depreciable and amortizable assets.

As a result of the above described effects, the Company's operating income increased 11.8% to \$4.7 million in the first quarter of fiscal 1993. As a percentage of sales, operating income was 4.3% in the first quarter of fiscal 1993 as compared to 3.9% in the first quarter of fiscal 1992.

Net interest expense decreased to \$2.3 million in the first quarter of fiscal 1993 from \$2.7 million in the first quarter of fiscal 1992. This decrease was due to a lower level of borrowing and lower interest rates on amounts borrowed in the first quarter of fiscal 1993 as compared to the first quarter of fiscal 1992.

Taxes on earnings for the first quarter of fiscal 1993 were \$910,000, yielding an effective tax rate of 37.0%, as compared to taxes of \$560,000, yielding an effective rate of 35.5% in the first quarter of fiscal 1992.

Net earnings for the first quarter of fiscal 1993 were \$1.6 million as compared to net earnings of \$1.0 million in the first quarter of fiscal 1992, an increase of 52.4%.

Financial Condition

May 2, 1992 versus February 1, 1992

The increase in net accounts receivable at May 2, 1992 from February 1, 1992 is primarily due to seasonal factors, April licensed sales being greater than January sales. Included in net accounts receivable for both periods is the \$13.7 million pre-petition receivable due from Ames.

Under bankruptcy law, Ames has the option of continuing (assuming) the existing license agreement with the Company or terminating (rejecting) that agreement. Pending Ames' election, the Company continues to operate in the remaining 371 Ames stores. The Company intends to continue to amortize the deferred lease acquisition costs of the license agreement with Ames over the remaining term of the agreement, since the Company believes, based on its assessment of the likelihood and level of ongoing business with Ames, that the value of the license agreement exceeds the historical carrying cost at May 2, 1992. Any closing by Ames of additional stores will likely reduce the value of the Ames license agreement to a level below the current carrying value of the deferred lease acquisition costs. This would result in a non-operational and non-cash write-down of the asset, which would be reflected in the Company's earnings. The amount of the write-down would depend on the Company's historical sales volume in the closed stores.

If the license agreement is assumed by Ames, Ames must cure all defaults under the agreement and the Company would collect in full the outstanding pre-petition accounts receivable. The Company has no assurance that the agreement will be assumed or that Ames will continue in business. Although the Company believes that rejection of the license agreement or cessation of Ames' business is not probable, in the event that the agreement with Ames is rejected, or Ames does not continue in business, the Company believes that it will have a substantial claim against Ames for damages. If such a claim is necessary, the amount realized by the Company, relative to the carrying value of Ames-related assets, will be based on the facts and circumstances at such time.

Merchandise inventories at May 2, 1992 were higher than at February 1, 1992 as a result of a seasonal increase in the average inventory level per retail location. The increase in inventory was partially offset by a decrease in the number of licensed departments.

At May 2, 1992 long-term debt increased over the balance at February 1, 1992 due to borrowings under the Company's revolving line of credit for seasonal working capital needs.

Liquidity and Capital Resources

The Company has a \$120 million revolving credit facility on an unsecured basis with Shawmut Bank, N.A., The First National Bank of Boston, The First National Bank of Chicago, Citibank, N.A. and Fleet National Bank (the "Banks"). As a result of an amendment to this facility dated June 28, 1991, the aggregate commitment amount will be reduced by \$5 million on each of July 1, 1992 and January 1, 1993. Another provision of this amendment states that the aggregate commitment amount will be reduced by the amount of any pre-petition receivables due from Ames which are paid to the Company, up to a maximum reduction under the provision of \$5 million. Borrowings under the revolving credit facility bear interest at variable rates and, at the discretion of the Company, can be in the form of loans, bankers' acceptances and letters of credit. This facility expires in June 1993. As of May 2, 1992, the Company had outstanding obligations under the revolving credit facility of \$114.5 million, consisting of loans, obligations under bankers' acceptances and letters of credit.

On April 29, 1989, the Company purchased from Ames the inventory and fixtures of the shoe departments of the Zayre division and the aforementioned license rights for \$60.6 million. This purchase was initially financed primarily by a \$59.6 million subordinated note from Ames at an interest rate of 13.875%. The Company replaced the Ames note on June 21, 1989 with a \$60 million long-term financing package consisting of \$25 million senior notes at an interest rate of 10.53%, payable in five equal annual installments of \$5 million beginning in 1992, and \$35 million senior subordinated notes due 1999 at an interest rate of 11.21%, payable in five equal annual installments of \$7 million beginning in 1995. The senior subordinated notes were issued with warrants to purchase in the aggregate 600,000 shares of the Company's common stock at a price of \$20 per share.

On May 20, 1992, the Company filed a registration statement relating to the offering of up to \$74,750,000 aggregate principal amount of convertible subordinated notes due 2002. The proceeds of the offering will be used to retire primarily higher interest rate indebtedness and pay associated redemption premiums.

The Company believes that amounts available under its revolving credit facility, along with internally generated funds, will be sufficient to meet its operating and capital requirements under ordinary circumstances, through the end of the current fiscal year.

PART II - OTHER INFORMATION

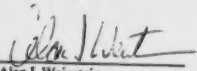
Item 6. Exhibits and Reports on Form 8-K

- (a) The Exhibits in the Exhibit Index are filed as part of this report.
- (b) No reports on Form 8-K were filed by the registrant during the quarter for which this report is filed.

SIGNATURES

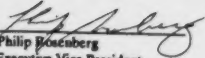
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

J. BAKER, INC.

By: 

Alan I. Weinstein
Senior Executive Vice President
(Duly Authorized Officer)

Date: Readville, Massachusetts
May 14, 1992

By: 

Philip Rosenberg
Executive Vice President,
Treasurer and Corporate
Controller
(Chief Accounting Officer)

Date: Readville, Massachusetts
May 14, 1992

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

EXHIBITS

Filed with

Quarterly Report on Form 10-Q

of

J. BAKER, INC.

65 Sprague Street

Readville, MA 02137

For the Quarter ended May 2, 1992

EXHIBIT INDEX

Exhibit

Page No.

- | | |
|--|----|
| 11. <u>Computation of Primary and Fully Diluted Earnings Per Share</u> | 13 |
| 19. <u>Previously Unfiled Documents</u> | |
| (01) Hudson Executive Employment Agreement dated September 30, 1991, attached. | 14 |
| (02) Connelly Executive Employment Agreement dated September 30, 1991, attached. | 21 |

EXHIBIT 11
J. BAKER, INC. AND SUBSIDIARIES
Computation of Primary and Fully Diluted Earnings Per Share $\pm$ /
(Unaudited)

	Quarter Ended	
	May 2, 1992	May 4, 1991
Net Income	<u>\$ 1,550,811</u>	<u>\$ 1,017,513</u>
PRIMARY:		
Weighted average number of common shares outstanding	<u>10,635,781</u>	<u>10,189,797</u>
Earnings per share	<u>\$0.146</u>	<u>\$0.100</u>
ASSUMING FULL DILUTION:		
Shares:		
Weighted average number of common shares outstanding	10,635,781	10,189,797
Dilutive effect of outstanding stock options	<u>249,933</u>	<u>110,965</u>
Weighted average number of common shares as adjusted	<u>10,885,714</u>	<u>10,300,762</u>
Earnings per share	<u>\$0.143</u>	<u>\$0.099</u>

$\pm$ / This calculation is submitted in accordance with Item 601(b)(11) of Regulation S-K. According to Accounting Principles Board Opinion No. 15, fully diluted earnings per share are not presented in the Company's Statements of Consolidated Earnings as they reduce primary earnings per share by less than 3%.

EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement is dated as of September 30, 1991 by and among Charles P. Hudson (the "Employee"), J. BAKER, INC., a Massachusetts Corporation (the "Company") and Parade of Shoes, a division of JBI, Inc., a Massachusetts corporation and wholly owned subsidiary of the Company ("Parade").

WHEREAS, the Employee, the Company and Parade desire to set forth in writing the terms and conditions of the Employee's employment agreement with the Company and Parade from the date hereof;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Employment. Under and subject to the terms and conditions set forth herein, the Company and Parade hereby agree to employ the Employee during the Term (as defined in Section 6 hereof) as the President of Parade and as an Executive Vice President of the Company, respectively, and/or in such other executive management position(s) with the Company or Parade, or any parent or subsidiary of the Company or Parade, as the Board of Directors of the Company (the "Board") or the Board of Directors of Parade may determine from time to time, and the Employee hereby accepts such employment.

2. Duties. The Employee agrees, during the Term and any extension of the Term, faithfully to perform for the Company and Parade and any subsidiary or parent of the Company or Parade, such duties of an executive as may be assigned to him from time to time by any such entity; to devote his entire business time, attention and energies exclusively to such employment; and to conform to the rules, regulations, instructions, personnel practices and policies of the Company and its subsidiaries, as existing and amended from time to time. The Employee may be required to relocate his principal residence only to an area in which the Company or a subsidiary of the Company has or determines to have significant operations.

3. Compensation.

(a) Base Salary. Parade shall pay the Employee during the Term (as defined in Section 6 hereof) an annual base salary of not less than \$210,000, payable no less often than monthly, in equal installments.

(b) Cash Incentive Compensation. In addition to his annual base salary as determined pursuant to Section 3(a), during the Term, Parade shall pay to the Employee a guaranteed bonus payment (the "Guaranteed Bonus Payment") equal to \$30,000 per year, prorated, in the case of any partial year of employment, to such portion of the year employed, and payable no later than 60 days after the Company's year end. The Employee shall also participate in the Company's Cash Incentive Compensation Plan (the "Incentive Plan"), based on a Base Pay Percentage (as defined in the Incentive Plan) of 35%, as from time to time such plan may be amended; provided, however, that any amounts to which the Employee would be entitled under the Incentive Plan with respect to any fiscal

year of the Company, (the "Incentive Bonus") shall be reduced by the amount of the Guaranteed Bonus Payment received by the Employee during such fiscal year. All amounts payable to the Employee pursuant to the Incentive Plan shall be paid by Parade rather than the Company.

4. Other Benefits.

(a) Fringe Benefits. Except as otherwise provided in Section 3(b) hereof, the Employee shall be entitled to participate in all benefit programs that the Company establishes and makes available to management generally and in any event shall be entitled to receive benefits at least substantially comparable to those provided pursuant to the present practices of the Company and its subsidiaries.

(b) Paid Vacations. The Employee shall be entitled to an annual paid vacation of three (3) weeks in each calendar year, to be taken at such time or times as the Employee and the Company shall mutually agree, provided, however, that no more than two weeks shall be taken during any three-month period unless otherwise agreed upon by the Company's Chief Executive Officer.

5. Expenses. Parade shall reimburse the Employee for all reasonable travel, entertainment and other business expenses incurred or paid by the Employee in performing his duties under this Agreement upon presentation by the Employee of expense statements or vouchers and such other supporting information as Parade or the Company may from time to time request, provided, however, that the amount available for such expenses may be fixed in advance by the Board after consultation with the Employee. Parade shall also pay or reimburse the reasonable relocation expenses of the Employee (consistent with the present policies of the Company) in connection with a relocation of the Employee's principal residence outside of the Eastern Massachusetts area as may be required by the Company or Parade pursuant to Section 2 hereof.

6. Effective Date and Term. This Agreement shall become effective as of the date hereof and the Employee's employment under this Agreement shall commence on such date and, unless sooner terminated as provided herein or extended, shall continue for a term (the "Term") ending on September 30, 1993. The Employee, the Company and Parade have obligations hereunder extending past the Term.

7. Noncompetition.

(a) During the Employee's employment under this Agreement and, in the event the Employee's employment is terminated without cause or if the Employee voluntarily terminates his employment with the Company and Parade, for the remainder of the Term, the Employee will not, without the express written consent of the Company, anywhere in the United States or any territory or possession thereof or in any foreign country in which any of the Shoe Companies (as defined in Section 7(b) hereof) were active as of the Termination Date: (i) compete with any of the Shoe Companies or any other entity then directly or indirectly controlled by the Company or Parade (each an "Affiliate"), in the Shoe Business (as defined in Section 7(d) hereof); or (ii) otherwise interfere

with, disrupt or attempt to interfere with or disrupt the relationship between any of the Shoe Companies and any person or business that was a customer, supplier, lessor, licensor, manufacturer, contractor, designer or employee of any of the Shoe Companies on the Termination Date or within two years prior to the Termination Date.

(b) For a period of two (2) years following the date of termination of employment hereunder for any reason whatsoever, (the "Termination Date"), the Employee will not, without the express written consent of the Company, recruit, solicit or induce, or attempt to induce, any employee or employees of the Company or Parade to terminate their employment with, or otherwise change their relationship with, the Company or Parade.

(c) The terms "Shoe Company" or "Shoe Companies" shall mean the Company, Parade and any other Affiliate of the Company or Parade which is then engaged in the Shoe Business.

(d) The term "compete" as used in this Section 7 means directly or indirectly, or by association with any entity or business, either as a proprietor, partner, employee, agent, consultant, director, officer, shareholder (provided that the Employee may make passive investments in competitive enterprises the shares of which are listed on a national securities exchange if the Employee at no time owns directly or indirectly more than 2% of the outstanding equity ownership of such enterprise) or in any other capacity or manner to (i) solicit, hire, purchase from, sell to, rent from or otherwise conduct business related to the Shoe Business (as defined in Section 7(d) hereof) with any party that is a customer or supplier of the Company or an Affiliate or (ii) operate any retail store which sells products related to the Shoe Business (as defined in Section 7(d) hereof).

(e) The term "Shoe Business" as used in this Section 7 means (i) any business in which the Company, Parade, or an Affiliate is engaged on the Termination Date related to the wholesale or retail sale or distribution of shoes, and (ii) any business related to the wholesale or retail sale or distribution of shoes in which the Company, Parade, or an Affiliate is actively planning to become engaged on the Termination Date.

(f) The term "supplier" as used in this Section 7 shall mean any party or affiliate of a party from which, on the Termination Date or within one year prior to the Termination Date, any Shoe Company purchased products sold by any Shoe Company or was in contact or actively planning to contact in connection with the purchase of products sold by any Shoe Company was contemplating the sale of at some time after the Termination Date.

(g) The term "customer" as used in this Section 7 shall mean any party or affiliate of a party which, on the Termination Date or within one year prior to the Termination Date, was a wholesale vendee or prospective wholesale vendee of any of the Shoe Companies.

8. Confidential Information. The Employee will never use for his own advantage or disclose any proprietary or confidential information relating to the business operations or properties of the Company or Parade, any Affiliate thereof or any of their respective customers, suppliers, landlords, licensors or licensees. Upon termination of the Employee's employment, the Employee will surrender and deliver to the Company all documents and information of every kind relating to or connected with the Company or Parade and its Affiliates and their respective businesses, customers, suppliers, landlords, licensors and licensees.

9. Termination.

(a) Death. In the event of the death of the Employee during the Term, his employment shall terminate and Parade shall pay to the Employee's surviving spouse, or to the Employee's estate if there is no surviving spouse, (i) the Employee's base salary for one year from the date of death and (ii) the Incentive Bonus, if any, payable with respect to the fiscal year in which his death occurs which otherwise would have been paid to the Employee on the basis of the results for the fiscal year in which his death occurs, prorated to the date of his death. Upon the death of the Employee, the rights of the Employee's surviving spouse or estate hereunder, as the case may be, shall be limited solely to the benefits set forth in this Section 9(a).

(b) Disability. In the event that the Employee shall become disabled (as hereinafter defined), the Company and Parade shall have the right to terminate the Employee's employment upon written notice, provided, however, that if the Company and Parade exercise such right, Parade shall continue to pay the Employee's base salary, less any disability insurance benefits received by the Employee, and to provide the other benefits to which the Employee is entitled under Section 4 of this Agreement for one year after such termination, and shall pay the Guaranteed Bonus Payment and the Incentive Bonus, if any, which otherwise would have been paid to the Employee on the basis of the results for the fiscal year in which such termination occurs, prorated to the date of such termination. For purposes of this Agreement, the Employee shall be considered disabled on the date when physical or mental illness or other incapacity shall, in the judgement of a majority of the members (other than the Employee) of the Board, after consulting with or being advised by one or more physicians (it being understood that one of such physicians may be the Employee's physician but that the Board shall not be bound by his or her views), have prevented the performance in a manner reasonably satisfactory to the Company and Parade of the Employee's duties under this Agreement for a period of six consecutive months.

(c) For Cause. The Company or Parade may by notice terminate the Employee's employment hereunder at any time for cause, which shall mean (i) failure by the Employee to cure a material breach of this Agreement within 15 days after written notice thereof by the Company or (ii) willful misconduct by the Employee in the performance of the Employee's duties hereunder or (iii) the commission by the Employee of any act constituting a felony. In such event all obligations of the Company and Parade hereunder shall thereupon terminate, including the obligations to pay any Guaranteed Bonus Payment or Incentive

Bonus with respect to the fiscal year in which such termination occurs, but the Employee shall be entitled to receive any accrued salary and other bonuses accrued with respect to any prior fiscal years.

(d) Without Cause. The Company or Parade may by notice terminate the Employee's employment hereunder at any time without cause. In such event Parade shall continue to pay the Employee's base salary for the remainder of the Term and provide the other benefits to which the employee is entitled under Section 4 of this Agreement. In addition, Parade shall pay the Guaranteed Bonus Payment prorated to the expiration of the Term.

10. Approval of Board. The Company and Parade represent that this Agreement has been duly approved by their respective Boards of Directors and is in all respects valid and binding upon them.

11. Key Person Insurance. The Employee agrees to take such actions as may be reasonably required to permit the Company or Parade to maintain key person life insurance on the Employee's life in such amounts and for such periods of time, if any, as the Company or Parade deems appropriate, with all benefits being payable to the Company or Parade. Upon payment by the Employee of the cash surrender value, if any, of any such policy and any paid but unearned premiums for such policy, the Company or Parade, as the case may be, will assign such policy to the Employee upon termination (other than because of the Employee's death) of the Employee's employment with the Company and Parade, provided, however, that, in the event the Employee's employment is terminated by reason of the disability of the Employee and the death of the Employee may reasonably be expected within one year after such termination as a result of such disability, the Company or Parade, as the case may be, shall not be required to assign any such policy.

12. Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been given and received when actually delivered, one business day after dispatch by telegraphic means, two business days after dispatch by recognized overnight delivery service, or five days after mailing by certified or registered mail with proper postage affixed, return receipt requested and addressed as follows (or to such other address as a party entitled to receive notice hereunder may have designated by notice pursuant to this Section 12):

(a) If to the Company:

J. Baker, Inc.
65 Sprague Street
Readville, Massachusetts 02137
Attn: President

(b) If to Parade:

Parade of Shoes, a division of JBI, Inc.
65 Sprague Street
Readville, Massachusetts 02137
Attn: Chief Financial Officer

- (c) If to the Employee:

Charles P. Hudson
3 Rocky Brook Road
Dover, Massachusetts 02030

13. **Severability.** If any provision of this Agreement or its application to any person or circumstances is invalid or unenforceable, then the remainder of this Agreement or the application of such provision to other persons or circumstances shall not be affected thereby. Further, if any provision or application hereof is invalid or unenforceable, then a suitable and equitable provision shall be substituted therefor in order to carry out so far as may be valid or enforceable the intent and purposes of the invalid and unenforceable provision.

14. **Applicable Law.** This Agreement shall be interpreted and construed in accordance with, and shall be governed by, the laws of the Commonwealth of Massachusetts without giving effect to the conflict of law provision thereof.

15. **Assignment.** None of the parties hereto shall, without the written consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided, however, that in the event that the Company sells a majority of the common stock of Parade in one or more of a series of related transactions or either the Company or Parade sells all or substantially all of its assets, the Company and Parade may assign their rights and transfer their obligations hereunder to the purchaser of such stock or such assets. A merger of the Company or Parade with or into another corporation shall be deemed not to be an assignment of this Agreement, and, in any such event, this Agreement shall inure to the benefit of and be binding upon the surviving corporation and the Employee. Subject to the foregoing, this Agreement shall be binding upon, and shall inure to the benefit of, the parties and their respective successors, heirs, administrators, executors, personal representatives and assigns.

16. **Headings.** The section and paragraph headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

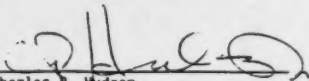
17. **Remedies.** It is specifically understood and agreed that any breach of the provisions of Section 7 or 8 of this Agreement is likely to result in irreparable injury to the Company and Parade, that damages at law will be an inadequate remedy for such breach, and that in addition to any other remedy they may have, the Company and Parade shall be entitled to enforce the specific performance of said Sections and to seek both temporary and permanent injunctive relief therefor without the necessity of proving actual damages.

18. **Waiver of Breach.** Any waiver by the Company, Parade or the Employee of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

19. Amendment of Agreement. This Agreement may be altered, amended or modified, in whole or in part, only by a writing signed by all of the parties hereto.

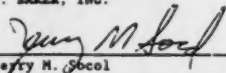
20. Integration. This Agreement constitutes the entire agreement between the parties with respect to the subject matter thereof and supersedes all prior agreements with respect to such subject matter between the parties.

Intending to be legally bound, the Company, Parade and the Employee have signed this Agreement as if under seal as of the date set forth at the head of the first page.



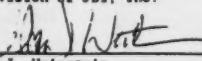
Charles P. Hudson

J. BAKER, INC.



Jeffrey M. Socol
President

Parade of Shoes,
a division of JBI, Inc.



Alan I. Weinstein
Chief Financial Officer

EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement is dated as of November 25, 1991, by and among Tom Connelly (the "Employee"), J. BAKER, INC., a Massachusetts Corporation (the "Company") and WGS Corp., a Massachusetts corporation and wholly owned subsidiary of the Company ("WearGuard").

WHEREAS, the Employee, the Company and WearGuard desire to set forth in writing the terms and conditions of the Employee's employment agreement with the Company and WearGuard from the date hereof:

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Employment. Under and subject to the terms and conditions set forth herein, the Company and WearGuard hereby agree to employ the Employee during the Term (as defined in Section 6 hereof) as the President of WearGuard stores and as an Executive Vice President of the Company, respectively, and/or in such other executive management position(s) with the Company or WearGuard, or any parent or subsidiary of the Company or WearGuard, as the Board of Directors of the Company (the "Board") or the Board of Directors of WearGuard may determine from time to time, and the Employee hereby accepts such employment.

2. Duties. The Employee agrees, during the Term and any extension of the Term, faithfully to perform for the Company and WearGuard and any subsidiary or parent of the Company or WearGuard, such duties of an executive as may be assigned to him from time to time by any such entity; to devote his entire employment; and to conform to the rules, regulations, instructions, personnel practices and policies of the Company and its subsidiaries, as existing and amended from time to time. The Employee may be required to relocate his principal residence only to an area in which the Company or a subsidiary residence only to an area in which the Company or a subsidiary of the Company has or determines to have significant operations.

3. Compensation.

(a) Base Salary. WearGuard shall pay the Employee during the Term (as defined in Section 6 hereof) an annual base salary of not less than \$165,000, payable no less often than monthly, in equal installments.

(b) Cash Incentive Compensation. In addition to his annual base salary as determined pursuant to Section 3(a), during the Term, the Employee shall participate in the Company's Cash Incentive Compensation Plan (the "Incentive Plan"), based on a Base Pay Percentage (as defined in the Incentive Plan) of 35%, as from time to time such plan may be amended. All amounts payable to the Employee pursuant to the Incentive Plan shall be paid by WearGuard rather than the Company.

4. Other Benefits.

(a) Fringe Benefits. Except as otherwise provided in Section 3(b) hereof, the Employee shall be entitled to participate in all benefit programs that the Company establishes and makes available to management generally and in any event shall be entitled to receive benefits at least substantially comparable to those provided pursuant to the present practices of the Company and its subsidiaries.

(b) Paid Vacations. The Employee shall be entitled to an annual paid vacation of four weeks in each calendar year, to be taken at such time or times as the Employee and the Company shall mutually agree, provided, however, that no more than two weeks shall be taken during any three-month period unless otherwise agreed upon by the Company's Chief Executive Officer.

5. Expenses. WearGuard shall reimburse the Employee for all reasonable travel, entertainment and other business expenses incurred or paid by the Employee in performing his duties under this Agreement upon presentation by the Employee of expense statements or vouchers and such other supporting information as WearGuard or the Company may from time to time request provided, however, that the amount available for such expenses may be fixed in advance by the Board after consultation with the Employee.

6. Effective Date and Term. This Agreement shall become effective as of the date hereof and the Employee's employment under this Agreement shall commence on such date and, unless sooner terminated as provided herein or extended, shall continue for a term (the "Term") ending on January 31, 1993. The hereunder extending past the Term.

7. Noncompetition.

(a) During the Employee's employment under this Agreement, the Employee will not, without the express written consent of the Company, anywhere in the United States or any territory or possession thereof or in any foreign country in which any of the Apparel Companies (as defined in Section 7(b) hereof) were active as of the date of termination of such employment (the "Termination Date"): (i) compete with any of the Apparel Companies or any other entity then directly or indirectly controlled by the Company (each an "Affiliate"), in the Apparel Business (as defined in Section 7(d) hereof); or (ii) otherwise interfere with, disrupt or attempt to interfere with or disrupt the relationship between any of the Apparel Companies and any person or business that was a customer, supplier, lessor, licensor, manufacturer, contractor, designer or employee of any of the Apparel Companies on the Termination Date.

(b) The term "Apparel Companies" shall mean WearGuard and any other Affiliate of the Company or which is then engaged in the Apparel Business.

(c) The term "compete" as used in this Section 7 means directly or indirectly, or by association with any entity or business, either as a proprietor, partner, employee, agent, consultant, director, officer, shareholder (provided that the Employee may make passive investments in competitive enterprises the shares of which are listed on a national securities exchange if the Employee at no time owns directly or indirectly more than 2% of the outstanding equity ownership of such enterprise) or in any other capacity or manner to (i) solicit, hire, purchase from, sell to, rent from or otherwise conduct business related to the Apparel Business (as defined in Section 7(d) hereof) with any party that is a customer or supplier of the Company or an Affiliate or customer or supplier of the Company or an Affiliate or (ii) operate any retail store which sells products related to the Apparel Business (as defined in Section 7(d) hereof)

(d) The term "Apparel Business" as used in this Section 7 means (i) any business in which WearGuard, the Company or an Affiliate is engaged on the Termination Date related to the apparel business, and (ii) any business related to the apparel business in which WearGuard, the Company or an Affiliate is actively planning to become engaged on the Termination Date, but specifically excluding retail or wholesale shoe operations of the Company and its Affiliates other than WearGuard.

(e) The term "supplier" as used in this Section 7 shall mean any party or affiliate of a party from which, on the Termination Date or within two years prior to the Termination Date, any Apparel Company purchased products sold by any Apparel Company or was in contact or actively planning to contact in connection with the purchase of products sold by any Apparel Company was contemplating the sale of at some time after the Termination Date.

(f) The term "customer" as used in this Section 7 shall mean any party or affiliate of a party which, on the Termination Date or within two years prior to the Termination Date, was a wholesale vendee or prospective wholesale vendee of any Apparel Company.

8. Confidential Information. The Employee will never use for his own advantage or disclose any proprietary or confidential information relating to the business operations or properties of the Company and Affiliate thereof or any of their respective customers, suppliers, landlords, licensors or licensees. Upon termination of the Employee's employment, the Employee will surrender and deliver to the Company all documents and information of every kind relating to or connected with the Company and its Affiliates and their respective businesses, customers, suppliers, landlords, licensors and licensees.

9. Termination.

(a) Death. In the event of the death of the Employee during the Term, his employment shall terminate and WearGuard shall pay to the Employee's surviving spouse, or to the Employee's estate if there is no surviving spouse, (i) the Employee's base salary for one year from the date of death and (ii) the incentive bonus, if any, payable with respect to the fiscal year in which his death occurs which otherwise would have been paid to the Employee on the basis of the results for the fiscal year in which his death occurs, prorated to the date of his death. Upon the death of the Employee, the rights of the Employee's surviving spouse or estate hereunder, as the case may be, shall be limited solely to the benefits set forth in this Section 9(a).

(b) Disability. In the event that the Employee shall become disabled (as hereinafter defined), the Company and WearGuard shall have the right to terminate the Employee's employment upon written notice, provided however, that if the Company and WearGuard exercise such right, WearGuard shall continue to pay the Employee's base salary, less any disability insurance benefits received by the Employee, and to provide the other benefits to which the Employee is entitled under Section 4 of this Agreement for one year after such termination, and shall pay the incentive bonus, if any, which termination, and shall pay the incentive bonus, if any, which otherwise would have been paid to the Employee on the basis of the results for the fiscal year in which such termination occurs, prorated to the date of such termination. For purposes of this Agreement, the Employee shall be considered disabled on the date when physical or mental illness or other incapacity shall, in the judgement of a majority of the members (other than the Employee) of the Board, after consulting with or being advised by one or more physicians (it being understood that one of such physicians may be the Employee's physician but that the Board shall not be bound by his or her views), have prevented the performance in a manner reasonably satisfactory to the Company and WearGuard of the Employee's duties under this Agreement for a period of six consecutive months.

(c) For cause. The Company or WearGuard may by notice terminate the Employee's employment hereunder at any time for cause, which shall mean (i) failure by the Employee to cure a material breach of this Agreement within 15 days after written notice thereof by the Company or of willful misconduct by the Employee in the performance of the Employee's duties hereunder or (ii) the commission by the Employee of any act constituting a felony. In such event all obligations of the Company and hereunder shall thereupon terminate including the obligations to pay any bonus with respect to the fiscal year in which such termination occurs, but the Employee shall be entitled to receive any accrued salary and other bonuses accrued with respect to any prior fiscal years.

10. Approval of Board. The Company and WearGuard represent that this Agreement has been duly approved by their respective Boards of Directors and is in all respects valid and binding upon them.

11. Key Person Insurance. The Employee agrees to take such actions as may be reasonably required to permit the Company or WearGuard to maintain key person life insurance on the Employee's life in such amounts and for such periods of time, if any, as the Company or WearGuard deems appropriate, with all benefits being payable to the Company or WearGuard. Upon payment by the Employee of the cash surrender value, if any, of any such policy to the Employee upon termination (other than because of the Employee's death) of the Employee's employment with the Company and WearGuard, provided, however, that, in the event the Employee's employment is terminated by reason of the disability of the Employee and the death of the Employee may reasonably be expected within one year after such termination as a result of such disability, the Company or WearGuard, as the case may be, shall not be required to assign any such policy.

12. Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been given and received when actually delivered, one business day after dispatch by telegraphic means, two business days after dispatch by recognized overnight delivery service, or five days after mailing by certified or registered mail with proper postage affixed, return receipt requested and addressed as follows (or to such other address as a party entitled to receive notice hereunder may have designated by notice pursuant to this Section 12):

- (a) If to the Company:

J. Baker, Inc.
65 Sprague Street
Readville, Massachusetts 02137
Attn: President

- (b) If to WearGuard:

WGS Corp.
65 Sprague Street
Readville, Massachusetts 02137
Attn: Chief Financial Officer

- (c) If to the Employee:

Tom Connelly

13. Saverability. If any provision of this Agreement or its application to any person or circumstances is invalid or unenforceable, then the remainder of this Agreement or the application of such provision to other persons or circumstances shall not be affected thereby. Further, if any provision or application hereof is invalid or unenforceable, then a suitable and equitable provision shall be substituted therefor in order to carry out so far as may be valid or enforceable the intent and purposes of the invalid and unenforceable provision.

14. Applicable Law. This Agreement shall be interpreted and construed in accordance with, and shall be governed by, the laws of the Commonwealth of Massachusetts without giving effect to the conflict of law provision thereof.

15. Assignment. None of the parties hereto shall, without the written consent of the others, assign or transfer this Agreement or any rights or obligations hereunder, provided, however, that in the event that the Company sells a majority of the common stock of WearGuard in one or more of a series of related transactions or either the Company or WearGuard sells all or substantially all of its assets, the Company and WearGuard may assign their rights and transfer their obligations hereunder to the purchaser of such stock or such assets. A merger of the Company or WearGuard with or into another corporation shall be deemed not to be an assignment of this Agreement, and, in any such event, this Agreement shall inure to the benefit of and be binding upon the surviving corporation and the Employee. Subject to the foregoing, this Agreement shall be binding upon, and shall inure to the benefit of, the parties and their respective successors, heirs, administrators, executors, personal representatives and assigns.

16. Headings. The section and paragraph headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

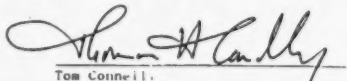
17. Remedies. It is specifically understood and agreed that any breach of the provisions of Section 7 or 8 of this Agreement is likely to result in irreparable injury to the Company and WearGuard, that damages at law will be an inadequate remedy for such breach, and that in addition to any other remedy they may have, the Company and WearGuard shall be entitled to enforce the specific performance of said Sections and to seek both temporary and permanent injunctive relief therefor without the necessity of proving actual damages.

18. Waiver of Breach. Any waiver by the Company, WearGuard or the Employee of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

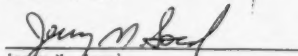
19. Amendment of Agreement. This Agreement may be altered, amended or modified, in whole or in part, only by a writing signed by all of the parties hereto.

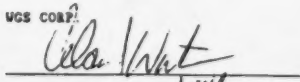
20. Integration. This Agreement constitutes the entire agreement between the parties with respect to the subject matter thereof and supersedes all prior agreements with respect to such subject matter between the parties.

Intending to be legally bound, the Company, WearGuard and the Employee have signed this Agreement as if under seal as of the date set forth at the head of the first page.


Tom Connell.

J. BAKER, INC.


Jerry H. Socol
President

VGS CORP.

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SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q
92116556

FORM 10-Q

622274

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarter ended
February 29, 1992

Commission file number
0-3303

CENTURY LABORATORIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

72-0510027

(I.R.S. Employer
Identification No.)

c/o Albert Raisin, 99 Soundview Drive,
Port Washington, New York
(Address of principal executive offices)

11050

(Zip Code)

Registrants' telephone number
including area code:

(516) 883-7428

Indicate by check mark whether Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities
Exchange Act of 1933 during the preceding 12 months (or for such
shorter period that Registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90
days.

Yes X

No _____

The number of shares outstanding of each of Registrant's classes of
common stock as of February 29, 1992 was:

Common Stock, par value \$.01 per share: 4,673,427 shares

This Quarterly Report on Form 10-Q has 8 pages.

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CENTURY LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, FEBRUARY 29, 1992 AND MAY 31, 1991

	FEBRUARY 29, 1992 UNAUDITED	MAY 31, 1991 AUDITED
ASSETS		
Current assets:		
Cash	24,660	9,927
Due from Century Science Corp.	0	13,055
Prepaid expenses	3	150
Interest receivable	349	0
Loans receivable	41,928	55,000
Total current assets	66,940	78,132
Other assets:		
Other	629	629
Investments	155,930	155,930
Property: automobile and equipment (net of accumulated depreciation - February 29, 1992 \$10,955; May 31, 1991 \$9,078.)	2,925	4,802
Intangible assets	95,625	97,500
Total other assets	255,109	258,861
Total assets	322,049	336,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	120,032	104,065
Accrued liabilities and other payables	25,278	28,366
Loan payable	25,000	2,832
	170,310	135,263
Stockholders' equity:		
Common stock - \$0.01 par value - authorized, 10,000,000 shares; issued and outstanding, February 29, 4,673,427 shares and May 31, 4,673,427 shares.	46,734	46,734
Capital in excess of par value	7,119,376	7,119,376
Deficit	(7,014,371)	(6,964,380)
Stockholders' equity	151,739	201,730
Total liabilities and stockholders' equity	322,049	336,993

See notes to consolidated financial statements.

The balance sheet at the year ended May 31, 1991 has been taken from the audited financial statements at that date.

The balance sheet at February 29, 1992 was prepared from the general books without audit.

CENTURY LABORATORIES, INC. AND SUBSIDIARIES
 STATEMENT OF CONSOLIDATED OPERATIONS
 FOR THE NINE MONTHS ENDED FEBRUARY 29, 1992 AND FEBRUARY 28, 1991

	1992	1991
Revenues	3,786	8,607
Costs and expenses	53,778	257,672
	-----	-----
Net income (loss)	(49,992)	(249,066)
Deficit, beginning of period	(6,964,380)	(6,689,700)
	-----	-----
Deficit, end of period	(7,014,372)	(6,938,765)
	=====	=====
Common shares outstanding	4,673,427	4,673,427
	-----	-----
Net income (loss) per common share	Nil	Nil
	-----	-----
Dividends paid	None	None
	-----	-----

See notes to consolidated financial statements.

Prepared from the general books without audit.

CENTURY LABORATORIES, INC. AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS

FOR THE THREE MONTHS ENDED FEBRUARY 29, 1992 AND FEBRUARY 28, 1991

	1992	1991
Revenues	1,278	1,283
Costs and expenses	12,317	76,485
Net income (loss)	(11,039)	(75,102)
Deficit, beginning of period	(7,003,333)	(6,863,663)
Deficit, end of period	(7,014,372)	(6,938,765)
Common shares outstanding	4,673,427	4,673,427
Net income (loss) per common share	Nil	Nil
Dividends paid	None	None

See notes to consolidated financial statements.

Prepared from the general books without audit.

CENTURY LABORATORIES, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
FOR THE NINE MONTHS ENDED FEBRUARY 29, 1992 AND FEBRUARY 28, 1991

	1992	1991
Cash Flows From Operating Activities:		
Net (loss)	(49,992)	(249,066)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation	3,753	1,969
Changes in assets and liabilities		
Decrease (increase) in receivable from Century Science Corp.	13,055	26,698
Decrease (increase) in prepaid expenses	147	4,167
Decrease (increase) in interest receivable	(349)	0
Decrease (increase) in loans receivable	13,072	0
Increase (decrease) in accounts payable	15,967	14,144
Increase (decrease) in accrued liabilities and other liabilities	(3,088)	(36,700)
Increase (decrease) in loans payable	22,168	
	-----	-----
Total adjustments	64,725	10,278
	-----	-----
Net cash used in operating activities	14,733	(238,787)
	-----	-----
Cash Flow From Investing Activities:		
Investment	0	(3,205)
	-----	-----
	0	(3,205)
	-----	-----
Cash Flow From Financing Activities:		
Payments of long term debt	0	(2,549)
Issuance of common stock	0	50,000
	-----	-----
	0	47,451
	-----	-----
Increase (decrease) in cash and cash equivalents	14,733	(194,541)
	-----	-----
Cash and cash equivalents - beginning of the year	9,927	303,238
	-----	-----
Cash and cash equivalents - end of the year	24,660	8,697
	=====	=====

See notes to consolidated financial statements.

Prepared from the general books without audit.

CENTURY LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 1992 AND FEBRUARY 28, 1991

1. The consolidated financial statements for the third quarter of 1992 and 1991 include the accounts of all wholly owned subsidiaries. All material intercompany transactions have been eliminated.
2. In the opinion of the Company, the accompanying unaudited financial statements include all adjustments (consisting of only normal recurring accruals which are necessary for a fair presentation of results for the period). Certain information and footnote disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles have been omitted. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report for the year ended May 31, 1991. The results of operations for the nine months ended February 29, 1992 are not necessarily indicative of the results to be expected for a full year.

CENTURY LABORATORIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial

Item 7. Condition and Result of Operations.

(a) Liquidity.

During the fiscal years ended May 31, 1985, the Company depended exclusively on earnings from royalty income. The License Agreement under which such royalties were paid to the Company terminated during September 1985. As a result, royalty income from this source was substantially reduced during fiscal 1986. For the four fiscal years ending May 31, 1990 \$13,678, \$16,399, \$29,577 and \$2,214 respectively, of royalties accrued to the Company under its License Agreements. No royalties accrued to the Company during the fiscal year ended May 31, 1991. Because of the limited royalty income during the five fiscal years ended May 31, 1991, the Company has relied to a great extent on the proceeds of the sale of Common Stock and of a 10% Convertible Subordinated Debentures for working capital. EPAL was placed in receivership during December 1989, and the Company elected to terminate the EPAL Agreement as May 15, 1990, by reason of such receivership. In addition, Procaps has not reported any sales of licensed products since October, 1989. Unless the working capital requirements of the Company are provided by royalties arising from the Procaps Agreement, newly developed sources of operating revenues, including new licensing arrangements, or from the sale of securities, or any combination of such sources, the Company may not be able to continue as a going concern.

Due to a general absence of net income in the past, the Company has been unable to make use of non-cash internal sources of liquidity such as depreciation and deferred taxes. The Company also has no external financing sources for general operations.

(b) Capital Resources

The Company has no material fixed commitments for capital expenditures.

(c) Results of Operations

1992 Compared to 1991

The Company did not earn any royalty income in either fiscal 1992 or fiscal 1991. All revenues resulted from interest earned on notes receivable.

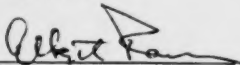
SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTURY LABORATORIES, INC.
(Registrant)

Dated

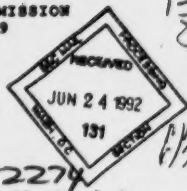
4/9/92



Albert Raisin (Chief Executive
Officer and Principal Financial
Officer)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q



0 28/28 17 548
Q-36115

(X) Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

() Transition Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarter ended January 31, 1992 Commission File No. 33-22426-D

CLUB AMERICA, INC.

(Exact name of Registrant as specified in its charter)

COLORADO
(State or other jurisdiction
incorporation or organization)

95-4047540
(I.R.S. Employer
Identification No.)

21550 Oxnard Blvd., Suite 300, Woodland Hills, CA 91367
(Address of principal executive offices and zip code)

(818) 596-2323
(Registrant's telephone number, including area code)

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (and for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _____ No X _____

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

3,636,333 shares of \$.001 par value common stock as of March 31, 1992.

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CLUB AMERICA, INC.

Part 1 - Financial Information

Item 1 - Financial Statements	<u>Page Number</u>
Balance Sheet	
January 31, 1992 (Unaudited) and October 31, 1991 (Unaudited)	3
Statements of Operations	
for the three months ended January 31, 1992 and 1991 (Unaudited)	4
Statement of Stockholders' Equity for the three months ended January 31, 1992 (Unaudited)	5
Statements of Cash Flows for the three months ended January 31, 1992 and 1991 (Unaudited)	7
Notes to Financial Statements	7-9
Item 2 - Managements Discussion and Analysis of Results of Operations and Financial	10-11
Part 2 - Other Information	12
- Exhibits and Reports on Form 8-K	

CLUB AMERICA, INC.
BALANCE SHEETS
AS OF JANUARY 31, 1992 AND OCTOBER 31, 1991

	January 31, 1992 (Unaudited)	October 31, 1991 (Unaudited)
ASSETS		
Current Assets:		
NONE	\$ <u>-0-</u>	\$ <u>-0-</u>
Total Current Assets	\$ 0	\$ 0
Property, and Equipment, at cost, net of accumulated depreciation (Notes 2 and 5)	7,502	18,328
Deposits and Organization costs, at cost, net of accumulated amortization	2,788	2,796
Total Assets	<u>\$ 10,290</u>	<u>\$ 21,124</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable & Accrued liabilities	330,055	466,426
Loans payable - shareholders (Note 3)	92,145	690,000
Total Current Liabilities	<u>\$ 422,200</u>	<u>\$ 1,156,426</u>
Commitments and contingencies (Note 8)		
Shareholders' equity: (Notes 3 and 4)		
Common stock, \$.001 par value, shares authorized 100,000,000; shares issued and outstanding, 3,636,333	3,636	13,345
Paid-in capital	1,192,641	363,900
Retained deficit	<u>(1,608,187)</u>	<u>(1,512,547)</u>
	(411,910)	(1,135,302)
Total Liabilities and Shareholders' Equity	<u>\$ 10,290</u>	<u>\$ 21,124</u>

SEE NOTES TO FINANCIAL STATEMENTS

**STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
JANUARY 31, 1992 AND 1991**

(UNAUDITED)

	Three months ended January 31	
	1992	1991
Net Sales	\$ 0	\$140,933
Loss on disposition of fixed assets	(7,502)	0
Interest and other income	<u>260</u>	<u>10,538</u>
	<u>(7,242)</u>	<u>151,471</u>
Cost and expenses:		
Cost of sales	(2,737)	69,288
Selling, general and administrative	69,448	227,950
Interest	18,363	7,275
Depreciation	<u>3,324</u>	<u>3,324</u>
	<u>88,398</u>	<u>307,837</u>
Income (loss) before income taxes	(95,640)	(156,366)
Provision for state income taxes	<u>0</u>	<u>0</u>
Net income (loss)	<u>(95,640)</u>	<u>(156,366)</u>
Earnings (loss) per common share	<u>(\$0.01)</u>	<u>(\$0.01)</u>
Weighted average number of common shares	<u>11,768,556</u>	<u>13,345,000</u>

SEE NOTES TO FINANCIAL STATEMENTS

CLUB AMERICA, INC.
STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)
THREE MONTHS ENDED JANUARY 31, 1992

(UNAUDITED)

	COMMON STOCK		PAID IN	RETAINED	TOTAL
	SHARES	AMOUNT	CAPITAL	EARNINGS	SHAREHOLDERS'
				(DEFICIT)	EQUITY
				(DEFICIT)	(DEFICIT)
Balance October 31, 1990 Unaudited	13,322,333	\$13,322	\$329,423	(\$755,172)	(\$412,427)
Issuance of common stock	23,000	\$23	\$34,477		\$34,500
Net loss				(\$757,375)	(\$757,375)
Balance October 31, 1991 (Unaudited)	13,345,333	\$13,345	\$363,900	(1,512,547)	(\$1,135,302)
REVERSE SPLIT of common stock at 1 for 4	(10,009,000)	(10,009)	10,009		
Contribution capital from debt			599,865		599,865
Issuance of Common stock For conversion of debt	300,000	300	218,867		219,167
Net Profit (Loss)				(\$95,640)	(\$95,640)
Balance January 31, 1992 (Unaudited)	<u>3,636,333</u>	<u>\$3,636</u>	<u>\$1,192,641</u>	<u>(\$1,608,187)</u>	<u>(\$411,910)</u>

SEE NOTES TO FINANCIAL STATEMENTS

CLUB AMERICA, INC.
STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS
ENDED JANUARY 31, 1992 AND 1991 (UNAUDITED)

	Three months ended January 31	
	1992	1991
Cash flows from operating activities:	\$	\$
Net income (loss)	(95,640)	(156,366)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	3,332	3,332
(Increase) Decrease in loan receivable-shareholder	-0-	10,544
(Increase) decrease in prepaid expenses and deposits	-0-	17,964
Increase (Decrease) in accounts payable and accrued liabilities	(136,371)	12,050
Increase (Decrease) in loans payable - shareholders	<u>(597,855)</u>	<u>79,417</u>
Total adjustments	<u>(\$730,894)</u>	<u>\$123,307</u>
Net cash provided by (used in) operating activities	<u>(\$826,534)</u>	<u>(\$ 33,059)</u>
Cash flows from investing activities:		
Purchase of property and equipment	- 0-	- 0-
Net cash used in investing activities:	<u>\$ - 0-</u>	<u>\$ - 0-</u>
Cash flows from financing activities:		
Contributed Capital from Debt	599,865	-0-
Disposition of Fixed Assets	7,502	-0-
Issuance of common stock from debt	219,167	-0-
Issuance of Common Stock	<u>0</u>	<u>34,500</u>
Net cash provided by (used in) financing activities	<u>\$ 826,534</u>	<u>\$ 34,500</u>
Net Increase (Decrease) in cash	0	1,441
Cash at beginning of period	<u>\$ 0</u>	<u>\$ 200</u>
Cash at end of period	<u>\$ 0</u>	<u>\$ 1,641</u>
Supplemental disclosures of cash flow information:		
Cash paid during the periods for Income Taxes	<u>\$ 0-</u>	<u>\$ 0-</u>

SEE NOTES TO FINANCIAL STATEMENTS

CLUB AMERICA, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 1992

1. Significant Accounting Principles:

Opinion of the Company:

In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position as of January 31, 1992 and October 31, 1991, and the results of operations and cash flows for the three months ended January 31, 1992 and 1991.

While the company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the financial statements and the notes to the financial statements included in the company's latest annual report on Form 10-K.

Pershare information:

Loss per share of common stock for the three months ended January 31, 1992 and 1991 have been computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period.

2. Contract payable:

In January, 1990 the company entered into a contract to lease certain equipment. The total lease cost of \$12,059 has been capitalized. The term of the lease is 36 months at monthly payments of approximately \$402. The company intends to take possession of the equipment at the end of the lease term. The totals are included in accrued liabilities.

3. Related party transactions:

In January 1992 the Company issued 300,000, (post stock split), shares of common stock, to convert an outstanding debt of \$200,000 plus accrued interest to one of its shareholders

In January 1992 a shareholder converted outstanding debts of the company, including notes payable of \$160,000, accrued interest and accrued management fees, into contributed capital.

In January 1992 a shareholder converted outstanding debts of the company, including notes payable incurred prior to October 1, 1991 of \$282,812 plus accrued interest, into contributed capital.

CLUB AMERICA, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 1992
(continued)

4. Reverse Split

On January 15, 1992 the Company reverse split its total outstanding shares of common stock at the rate of four shares of old stock for one new share (1 : 4).

5. Property and equipment:

Property and equipment consists of the following at January 31, 1992 and October 31, 1991:

	<u>January 31, 1992</u>	<u>October 31, 1991</u>
Furniture and equipment	10,265	20,529
Computer equipment	<u>12,832</u>	<u>25,664</u>
	23,097	46,193
Less, accumulated depreciation	<u>15,595</u>	<u>27,865</u>
	<u>\$ 7,502</u>	<u>\$ 18,328</u>

Certain fixed assets were disposed of when the Company vacated their office space at 9220 Sunset Boulevard, Los Angeles. These were written off at net book value during January 1992.

6. Income taxes:

Due to the company's available net operating loss carry forwards no further provision has been provided.

7. Change in fiscal year:

On January 25, 1990 the board of directors approved a change in the fiscal year end of the company from July 31st to October 31st.

8. Commitments and contingencies:

The company is not a party to any litigation.

CLUB AMERICA, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 1992
(continued)

The company subleases a portion of premises occupied by Jamesburg, on a month-to month basis at the present monthly rent of approximately \$6,000. The lease expires on March 31, 1992.

9. Subsequent Event:

The Company entered into a Stock Purchase Agreement with PlanCapital U.S.A., Inc. on January 15, 1992, wherein PlanCapital desires to exchange all its existing shares for 4,800,000 shares of restricted common stock of the Company. This agreement closed subsequent to January 31, 1992, and therefore, is not reflected in the foregoing financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

Development Stage Activities and Results of Operations

The company was incorporated in November, 1985 to evaluate, structure and complete a merger with, or acquisition of, prospects, consisting of private companies. During 1989 the Company sold 300,000 units to the public consisting of one share of common stock and common stock purchase warrants at \$.10 per unit, which have expired. Effective August 22, 1989 the company sold 10,000,000 shares of its common stock to Jamesburg Companies, Inc. in exchange for all assets of Jamesburg relating to Club America. The Company assumed a \$25,000 obligation of Jamesburg. From inception through July 31, 1989, approximately \$900,000 had been expended in carrying out the development state activities by Jamesburg Companies, Inc..

There were no sales for the quarter ending January 31, 1992. During this period management entirely devoted its energies to finalizing a viable reorganization with an interest growth company and satisfying its major creditors.

Since the company commenced sale of its products in August, 1989 it has incurred many roadblocks on the way to profitability. Management has sought, through outside consultants, its debtholders and some shareholders, many alternative ways to bring the company to profitability. Every facet of the business was looked at, and management was confident it could effectuate a positive change in the Company. Management has entered into a Stock Purchase Agreement with PlanCapital U.S.A., Inc., whereby PlanCapital will take controlling interest of the Company in exchange for all the stock of and assets of PlanCapital U.S.A., Inc. Management felt this course of action to be in the best interest of all shareholders and the most immediate program to ensure the continuity of its business activities.

As part of the transaction with PlanCapital a majority of these debts, accrued interest, to shareholders and outside investors have been converted into capital contribution and or exchanged for equity in the Company.

The management feels that the new principals have the background and the capabilities to succeed with their plan of operations and marketing.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

Liquidity and Capital Resources

The Company had funded its activities through advances from its principal shareholders, subordinated debt; sale of restricted common stock, the proceeds of its 1989 private placement and sales of its products. Management anticipates that future cash needs will be met out of revenues or through additional loans. There can be no assurance that such funds will be available. Failure to receive these funds could have material adverse consequences for the Company.

Inflation

The company has had only limited experience with respect to the effect of inflation on its business or results of operations. However the club membership industry is well developed and based on management's understanding of the industry's experience, it does not believe that inflation has had or will have a significant impact on the results of the Company's operations.

OTHER INFORMATION

Item 1. Legal Proceedings.

The company knows of no material litigation presently or intended against the company.

Item 2. Change in the Rights of the Company's Security Holders.

Not applicable.

Item 3. Defaults by the Company on its Senior Securities.

Not applicable.

Item 4. Results of Votes of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

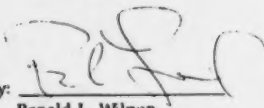
Not applicable.

SIGNATURE(S)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLUB AMERICA, INC.
(Registrant)

Dated: May, 29 1992

By: 

Ronald L. Wilpon,
President and Treasurer

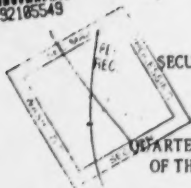
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Q-3653

FORM 10-Q

E 92-2274



SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 1991

Commission File No. 2-89401

EX-CEL RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State the jurisdiction of
incorporation or organization)

PROCESSED BY 13-3188137
IRS Employer ID#)

APR 7 1992

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880 Third Ave., New York, N.Y.

(Address of principal executive office)

Q-Data Corp. - St. Petersburg, FL

Registrants telephone number:

(212) 832-1203

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes ☒ No ☐

If the registrant has been involved in bankruptcy proceedings during the preceding five years, indicate by check mark whether it has filed all documents and reports required to be filed by Sec. 12, 13, or 15(d) of the Sec. Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of 6/30/91 there were outstanding 8,340,913
par value

of common stock, \$.01

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EX-CEL RESOURCES INC
(A Developmental Stage Enterprise)

MANAGEMENT'S DISCUSSION
AND
ANALYSIS OF OPERATIONS

RESULTS OF OPERATIONS

Development stage loss for the quarter to June 30,1991 amounted to \$600. The company was investigating potential products, business combinations, mergers and joint ventures for the purposes of engaging in developments or sale directed to environmental and health related industries.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital as of June 30,1991 was \$-0-. Currently, no working capital is being generated from operations.

The Company believes it has sufficient working capital for the immediate future. If additional funds are required the Company believes it can arrange for such financing by borrowing or sale of securities.

PART II

ITEM 1 LEGAL PROCEEDINGS

No legal or administrative proceedings were commenced, or notice received that same would commence against Registrant during the quarter ending 6/30/91

ITEM 2 CHANGES IN SECURITIES

There have been no changes in Registrant's securities

ITEM 3 CHANGES IN SECURITY FOR REGISTERED SECURITIES

There have been no changes in security for registered security

ITEM 4 DEFAULT UPON SENIOR SECURITIES None

ITEM 5 INCREASE IN THE AMOUNT OF OUTSTANDING SECURITIES OR DEBT

There has been no increase in outstanding securities or debt during the quarter ending in excess of 5%

ITEM 6 DECREASE IN AMOUNT OF OUTSTANDING SECURITIES OR DEBT

None in excess of 5% of prior outstanding securities or debt.

ITEM 7 SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS.

None

ITEM 8 OTHER MATERIALLY IMPORTANT EVENTS None

ITEM 9 EXHIBITS AND REPORTS ON 8K None

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934 Registrant has caused this report to be signed on its behalf by the undersigned duly authorized thereto

EX-CEL RESOURCES, INC.

DATE: 3/1/92


DON KAUFMANN, PRES. & DIRECTOR

Ex-Cel Resources, Inc.
 (A Development-Stage Enterprise)
 Balance Sheet
 June 30, 1991
 (Unaudited)

ASSETS

Total Assets

\$ - 0 -

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:

Accrued Expenses Payable	\$ 14,925
Total Current Liabilities	\$ 14,925

Commitments and Contingencies

Stockholders' Deficit:

Preferred Stock, Par Value \$.25 per Share	
Authorized - 10,000,000 Shares; No Shares Issued and Outstanding	
	\$ -
Common Stock, Par Value \$.01 Per Share	
Authorized - 10,000,000 Shares	
Issued - 9,030,529 Shares	90,305
Less: Treasury Stock - 689,616 Shares	2,906
Outstanding - 8,340,913 Shares	87,399
Additional Paid-In Capital	37,170
Additional Paid-In Capital - Donated Stock	2,896
Deficit Accumulated During Development Stage	(142,390)
Total Stockholders' Deficit	<u>(14,925)</u>

Total Liabilities and Shareholders' Deficit

\$ - 0 -

Ex-Cel Resources, Inc.
(A Development-Stage Company)
Statement of Loss and Accumulated Deficit
from December 7, 1982 (Date of Inception) To June 30, 1991
(Unaudited)

	Three Months Ended June 30, 1991	Six Months Ended June 30, 1991	Cumulative December 7, 1982 (Date of Inception) To June 30, 1991
Revenue			
Other Income	\$ -	\$ 30,254	\$ 32,845
Costs and Expenses			
Operating Expenses	600	53,813	175,235
Net Loss	\$ (600)	\$ (23,579)	\$ (142,390)
			
Average Number of Shares Outstanding	10,340,913	10,345,333	
Net Loss Per Common Share	\$.000	\$.002	

FX-CEL RESOURCES, INC.
(A DEVELOPMENT-STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

	COMMON STOCK		ADDITIONAL		DEFERRED	ACCUMULATED		
	NUMBER OF	PAR	PAY-IN		DURING THE	DEVELOPMENT		
	SHARES	VALUE	CAPITAL		STAGE			TOTAL
December 7, 1982								
(Date of inception)	0	\$ 0	\$ 0	\$ 0	0	\$ 0		0
Issuance of common stock for cash and payment of company's organization costs (Note 1):								
\$ 0.265 per share	944,992	9,444	15,954		0			24,000
Net income (loss)	0	0	0		(508)			(508)
Balance at December 31, 1983	944,992	\$ 9,444	\$ 15,954	\$	(508)			\$ 24,492
Adjustment for common stock not issued relating to cancellation of certain Royalty Ventures Corporation's common shares prior to distribution								
	(16,012)	(160)	160		0			0
Net income (loss)	0	0	0		(3,793)			(3,793)
Balance at December 31, 1984	928,980	\$ 9,286	\$ 15,714	\$	(4,301)			\$ 20,699
Net income (loss)	0	0	0		(6,348)			(6,348)
Balance at December 31, 1985	928,980	\$ 9,286	\$ 15,714	\$	(10,649)			\$ 14,351
Sale of stock for cash \$ 0.24 per share	1,000,000	10,000	15,000		0			25,000
Stock issued to acquire 100% of the common stock of Invest Technologies, Ltd. at \$ 0.31 per share	5,832,333	58,323	0		0			58,323
Consolidated net income (loss)	0	0	0		(31,992)			(31,992)
Balance at December 31, 1986	7,760,913	\$ 77,609	\$ 30,714	\$	(42,646)			\$ 65,677
Dividend distribution of 100% of the shares of ES Prime Corp. (Note 2)	0	0	(21,849)		0			(21,849)
Common stock issued for services rendered	30,000	300	3,450		0			3,750
Consolidated net income (loss)	0	0	0		(37,023)			(37,023)
Balance at December 31, 1987	7,790,913	\$ 77,909	\$ 32,315	\$	(79,669)			\$ 10,355

-continued-

EX-CEL RESOURCES, INC.
(A DEVELOPMENT-STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL
	NUMBER OF SHARES	PAR VALUE			
Balance at December 31, 1987 (carried forward)	2,790,913	\$ 77,909	\$ 13,319	\$ (29,699)	\$ 10,555
Issuance of treasury stock	(289,616)	(2,896)	2,896	0	0
Common stock issued for services rendered	331,000	3,710	9,565	0	9,275
Common stock issued as additional consideration for loan received	16,000	160	540	0	900
Sale of stock warrants (Note #1)	0	0	18,750	0	18,750
Consolidated net income (loss) for the year ended December 31, 1988	<u>2,908,297</u>	<u>29,781</u>	<u>40,066</u>	<u>(151,943)</u>	<u>(151,943)</u>
Balance at December 31, 1988	<u>2,908,297</u>	<u>\$ 79,283</u>	<u>\$ 40,066</u>	<u>\$ (231,217)</u>	<u>\$ (112,063)</u>
Common stock issued for services rendered	692,616	6,528			6,926
Common stock issued for payment of interest	88,000	400			400
Consolidated net income (loss) for the year ended December 31, 1989	<u>8,640,913</u>	<u>86,409</u>	<u>40,066</u>	<u>(97,877)</u>	<u>(1,97,877)</u>
Common Stock issued for interest on subordinated	100,000	5,000			5,000
Consolidated net income (loss) for the year ended December 31, 1990	<u>8,740,913</u>	<u>87,409</u>	<u>40,066</u>	<u>210,278</u>	<u>210,278</u>
				<u>(118,811)</u>	<u>8,664</u>

	Shares	Common Stock	Additional Paid-In Capital	Deficit Accumu- lated During Development Stage	Total
Balance-December 31, 1990	8,740,913	\$87,409	\$40,066	\$(118,811)	\$ 8,664
Purchase of Treasury Stock	(400,000)	(10)	-	-	(10)
Net Loss Six Months Ended - June 30, 1991	-	-	-	(23,579)	(23,579)
Balance at June 30, 1991	8,340,913	\$87,399	\$40,066	\$(142,390)	\$(14,925)

Ex-Cel Resources, Inc.
(A Development-Stage Enterprise)
Statement of Cash Flows
From December 7, 1982 (Inception Date) to June, 30 1991
(Unaudited)

	Six Months Ended June 30, 1991	Cumulative December 7, 1982 (Date of Inception) To June 30, 1991
Cash Flows From Operating Activities:		
Net (Loss)	\$(23,579)	\$(142,390)
Adjustment to Reconcile Net Loss to Net Cash (Applied to) Operating Activities:		
Issuance of Common Stock in Payment of Consultants' Fees	-	13,285
Issuance of Common Stock in Payment of Interest	-	2,300
Increase in Accrued Expenses - Others	3,090	14,925
Net Cash (Applied to) Operating Activities	<u>(20,489)</u>	<u>(111,880)</u>
Cash Flows From Investing Activities:		
Issuance of Common Stock To Acquire a Subsidiary	-	64,323
Proceeds From Sale of Subsidiary, Net of Subsidiary Cash Balance Given up	34,820	-
Net Cash Provided By Investing Activities	<u>34,820</u>	<u>64,323</u>
Cash Flows From Financing Activities:		
Purchase of Treasury Stock	(10)	(10)
Proceeds From Issuance of Common Stock	-	28,817
Proceeds From The Sale of Stock Option	-	18,750
(Decrease) in Loans Received From Shareholders	(14,497)	-
Net Cash (Applied to) Provided by Financing Activities	<u>(14,507)</u>	<u>47,557</u>
Net (Decrease) in Cash	(176)	-
Cash at Beginning of Period	<u>176</u>	<u>-</u>
Cash at End of Period	<u>\$ -</u>	<u>\$ -</u>

Supplemental Disclosure - In 1988, 289,616 Shares Donated to the Company were recorded as Treasury Stock, at par.

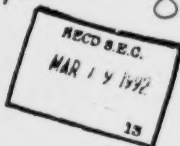
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended December 31, 1991

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-18274

EXECUTIVE OFFICE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation or organization)

17-3333501
(I.R.S. Employer
Identification No.)

1285 Avenue of the Americas
New York, New York
(Address of principal executive
offices)

10019
(Zip Code)

Registrant's telephone number,
including area code:

(212)-581-3900

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X. No ____.

4,323,680 Common Shares were issued and outstanding at December 31, 1991.

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EXECUTIVE OFFICE GROUP, INC.

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PART II. OTHER INFORMATION

SIGNATURES

EXECUTIVE OFFICE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

CURRENT ASSETS	DECEMBER 31, 1991 (unaudited)	JUNE 30, 1991 (audited)
Cash	9,770	132,868
Rent and Tenant Receivables	249,810	245,038
Prepaid Expenses & Other	80,327	35,169
TOTAL CURRENT ASSETS	339,907	413,075
PROPERTY & EQUIPMENT - NET	1,365,490	1,173,547
GOODWILL - NET	622,350	637,470
ORGANIZATIONAL COSTS	49,638	0
DUE FROM RELATED PARTY	48,719	48,719
RESTRICTED CASH (1)	204,671	204,671
OTHER ASSETS	131,842	31,222
TOTAL ASSETS	2,762,617	2,508,704
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT:		
Accounts Payable & Accrued Expenses	721,406	588,954
Security Deposits	415,479	317,595
Deferred Income	38,563	31,946
Notes Payable	276,532	0
Current Maturities of long-term debt	312,642	275,112
TOTAL CURRENT LIABILITIES	1,764,622	1,213,607
ACCOUNTS PAYABLE-LONG TERM	0	0
LONG-TERM DEBT	214,943	337,762
DEFERRED RENT (2)	1,111,319	898,553
TOTAL LIABILITIES	3,090,884	2,449,922
STOCKHOLDERS' EQUITY (DEFICIENCY) (3)		
Common stock - par value \$.01;		
Shares authorized - 12,500,000;		
Shares issued and outstanding - 4,323,680	43,237	43,237
Additional Paid-in-Capital	3,216,159	3,216,159
Deficit	(3,587,663)	(3,200,614)
TOTAL STOCKHOLDER'S EQUITY (DEFICIENCY)	(328,267)	58,782
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	2,762,617	2,508,704

The accompanying notes are an integral part of these consolidated financial statements.

EXECUTIVE OFFICE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	12/31/91 (unaudited)	12/31/90*	12/31/91 (unaudited)	12/31/90* (unaudited)
REVENUES:				
Office rentals	982,559	800,931	1,867,905	1,555,236
Support Services	460,264	415,982	844,076	777,114
Interest Income	736	721	2,438	1,284
TOTAL REVENUES	1,443,559	1,217,634	2,714,419	2,333,634
COST AND EXPENSES:				
Rent Expense	785,040	557,187	1,368,571	1,091,866
Support Services	229,990	325,347	426,064	645,371
General and Administrative	523,895	267,688	1,056,789	542,763
Depreciation and Amortization	68,406	57,579	134,016	115,158
Ecd Debt Write-off	83,430	0	83,430	0
Interest Expense	15,061	18,634	32,598	38,834
TOTAL COSTS AND EXPENSES	1,705,822	1,226,435	3,101,468	2,433,992
NET PROFIT (LOSS)	(262,263)	(8,801)	(387,049)	(100,358)
NET PER SHARE	(0.06)	(0.00)	(0.09)	(0.03)
Weighted Average Shares Outstanding	4,323,680	3,755,259	4,323,680	3,755,259

The accompanying notes are an integral part of these consolidated financial statements

*Reclassified to conform with Current Year Presentation

EXECUTIVE OFFICE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	NET GAIN/ (LOSS)	TOTAL
BALANCE, _JUNE 30, 1990	4,323,680	43,237	3,216,159	(3,200,614)	58,782
NET ACTIVITY	0	0	0	(387,049)	(387,019)
BALANCE, _DECEMBER 31, 1991	4,323,680	43,237	3,216,159	(3,587,663)	(328,267)

The accompanying notes are an integral part of these consolidated financial statements.

EXECUTIVE OFFICE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED DECEMBER 31, 1991 (unaudited)	SIX MONTHS ENDED DECEMBER 31, 1990* (unaudited)
Cash Flow from Operating Activities:		
Net Gain (Loss)	(387,049)	(100,359)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	134,016	115,158
Deferred Rent Costs	129,184	93,839
	(123,849)	108,638
Changes in Assets and Liabilities:		
(Increase) Decrease in Tenant Receivables	(4,772)	(63,448)
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(45,158)	1,131
(Increase) Decrease in Other Assets	(100,620)	6,451
Increase (Decrease) in Accounts Payable and Accrued Expenses	132,452	81,715
Increase (Decrease) in Security Deposits	97,884	5,938
Increase (Decrease) in Deferred Income	6,617	(18,711)
	86,403	13,076
Total Adjustments	86,403	13,076
Net Cash (used in) Operating Activities	(37,446)	121,714

The accompanying notes are an integral part of these consolidated financial statements.

*Reclassified to conform with Current Year Presentation

EXECUTIVE OFFICE GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Net Cash (used in) Operating Activities	(37,446)	121,714
Cash Flow provided by Investing Activities:		
(Increase) Decrease in Purchases of Property and Equipment	(233,646)	(39,052)
(Increase) Decrease in Due from Related Party	0	(5,091)
(Increase) Decrease in Organizational Expense	(49,638)	0
Net Cash (used in) provided by Investing Activities:	(283,284)	(44,143)
Cash Flow from Financing Activities:		
Increase (Decrease) - Payment of Long-Term Debt, Current Maturities	(85,289)	(113,130)
Increase (Decrease) in Notes Payable	276,532	0
Net Cash (used in) provided by Financing Activities:	191,243	(113,130)
Net Increase (Decrease) in Cash:	(129,487)	(35,559)
Cash - Beginning of Period	132,868	90,403
Cash - End of Period	3,381	54,844

The accompanying notes are an integral part of these consolidated financial statements.

6A

EXECUTIVE OFFICE GROUP, INC. AND SUBSIDIARIES

Summary of Significant Accounting Policies (unaudited)

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include Executive Office Group, Inc. (the "Company") and its wholly-owned subsidiaries, Executive Office Group of D.C., Inc. ("EOG/DC"), Executive Office Group of N.Y., Inc. ("EOG/NY"), Executive Office Group of VA., Inc. ("EOG/VA"), Costa Mesa-Executive Office Group, Inc. ("EOG/CM") and Executive Office Group of Downtown NY, Inc. ("EOG/DNY"). All intercompany accounts and transactions have been eliminated in consolidation.

On April 16, 1990, the Company, through EOG/VA, entered into an agreement with a February 1, 1990 effective date to acquire certain assets of Corporate America Executive Suites.

On November 30, 1987, the Company acquired the business of EOG/DC, a company engaged in leasing executive suite facilities and complete support services on a short-term basis. This transaction was accounted for as a reverse acquisition.

REVENUE RECOGNITION

The Company's wholly-owned subsidiaries bill their tenants for occupancy and telephone rental a month in advance. These amounts are deferred at the time of billing and classified as income when earned. Auxiliary and support service income is recognized and recorded in the month that the service is provided.

PROPERTY, EQUIPMENT AND DEPRECIATION

Furniture, fixtures, equipment and costs allocated to beneficial leaseholds acquired are stated at cost. Depreciation and amortization are computed over the estimated useful lives of the furniture and equipment and the term of the Company's leaseholds. The beneficial lease is being amortized over its estimated benefit period.

EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED

Excess of purchase price over net assets acquired is amortized on the straight-line method over its estimated useful life of 25 years.

**EXECUTIVE OFFICE GROUP, INC.
AND SUBSIDIARIES**

Summary of Significant Accounting Policies
(unaudited)

NET PROFIT/LOSS PER SHARE

Net loss/profit per share is computed by dividing the weighted average number of common shares outstanding throughout the periods. Shares issuable upon conversion of debentures and warrants have not been included in the computation as their effect would be antidilutive.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The balance sheet as of December 31, 1991, the statements of profit/loss for the three-month and six month periods ended December 31, 1991 and December 31, 1990 and the statements of cash flow for the six months ended December 31, 1991 and December 31, 1990 are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operation and changes in cash flow at December 31, 1991 and for the periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally-accepted accounting principals have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company's 1991 annual report to stockholders. The results of operations for the period ended December 31, 1991 are not necessarily indicative of the operating result for the full year.

EXECUTIVE OFFICE GROUP, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(unaudited)

Note 1. **RESTRICTED CASH**

As a condition of opening the New York City office facility, the landlord required a stand-by letter of credit in the aggregate amount of approximately \$300,000. As of December 31, 1991, the letter of credit is being secured by a certificate of deposit in the amount of approximately \$204,000, which is restricted as to use, classified as long-term on the balance sheet and is guaranteed by an officer of the Company.

Note 2. **DEFERRED RENT COSTS**

The Company records a liability for deferred rent costs to the extent that the amortized rental commitment exceeds actual lease payments. The amortization of the rental commitment exceeded actual lease payments by approximately \$129,624 for the year ended June 30, 1991 and approximately \$129,184 for the six months ended December 31, 1991.

Note 3. **STOCK SPLIT AND RECAPITALIZATION**

On May 9, 1991 the Board of Directors of the Company approved a decrease in the authorized common stock of the Company from 500,000,000 shares, \$.001 par value to 12,500,000 shares, \$.01 par value, and authorized 2,500,000 shares of preferred stock at \$4.00 par value. Additionally, the Board of Directors approved the exchange of one share of common stock \$.01 par value for twenty shares of common stock, \$.001 par value resulting in a 1:20 reverse split. These changes were approved by shareholders in July 1991. All share and per share information has been adjusted to give retroactive effect to the aforesaid reverse stock split and change in authorized Common Stock.

Note 4. **SUBSEQUENT EVENTS**

ACQUISITION

Effective October 1, 1991, Costa Mesa-Executive Office Group, Inc. (EOG/CM), a recently formed wholly-owned subsidiary of the Company, entered into an agreement to acquire all of the assets and certain liabilities of J.H. Anderson & Associates, Inc. in Costa Mesa, California for \$175,000. The agreement provides for \$50,000 payable in cash at acquisition and the balance payable in sixteen quarterly installments beginning January 15, 1993 in amounts equal to at least \$7,500 as a payout (as defined in the agreement). The acquisition was accounted for as a purchase. The acquired assets and liabilities were recorded at their estimated fair value at the date of acquisition. There was no goodwill as a result of this transaction. The results of operations of J.H. Anderson & Associates, Inc. will be included with the results of the Company from October 1, 1991.

On October 31, 1991, Executive Office Group of Downtown NY, Inc. ("EOG/Downtown"), a recently formed wholly owned subsidiary of the Company, entered into an agreement effective October 15, 1991 to acquire certain assets of 26 Business Offices, Inc. ("26 Business") in New York City. The assets acquired by EOG/Downtown included office furniture and equipment, telephone system, subleases with existing tenants, cash in the amount of the security deposits and leasehold improvements. EOG/Downtown also renegotiated the terms of the office lease "Master Lease" with the landlords and assumed all the obligations of the subleases including the obligations to return security deposits to tenants if and when they need to be paid. The purchase price paid to 26 Business in consideration of the acquired assets, was \$550,000 payable in 24 consecutive monthly installments in the amount of \$23,125 each commencing December 1, 1991. Prior to this transaction, no material relationship existed between 26 Business, the Company or any of its affiliates.

In December 1991, the Company entered into an agreement to manage a business center at 599 Lexington Avenue (Suite 2300) in New York City. Pursuant to a separate agreement, the Company was granted an option to purchase the business center during 1992 and 1993 and a right of first refusal to purchase the business during 1994.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Total revenue for the three months ended December 31, 1991 and December 31, 1990 were \$1,443,559 and \$1,217,634, respectively, an increase for the three months ended December 31, 1991 of 15.7%. Revenue from office rentals for three months ended December 31, 1991 and December 31, 1990 were \$982,559 and \$800,931, respectively. Revenue from support services for the three months ended December 31, 1991 and December 31, 1990 were \$460,264 and \$415,982, respectively.

Total revenue for the six months ended December 31, 1991 and December 31, 1990 were \$2,714,419 and \$2,333,634, respectively, an increase for the six months ended December 31, 1991 of 14%. Revenue from office rentals for six months ended December 31, 1991 and December 31, 1990 were \$1,867,905 and \$1,555,236, respectively. Revenue from support services for the six months ended December 31, 1991 and December 31, 1990 were \$844,076 and \$777,114, respectively.

Total Rental revenue of \$154,094 and service revenue of \$101,653 was generated by the addition of two new Business Centers, one in CA and the other in NY in the three months ended December 31, 1991. The Business Centers were not present in the operations for the three and six months ended December 31, 1990.

Revenue from office rentals for EOG/NY during the three months and six months ended December 31, 1991 were \$346,290 and \$702,841, respectively. Revenue from office rentals for the three months and six months ended December 31, 1990 were \$351,644 and \$677,638 respectively. Revenue from support services for EOG/NY during the three months and six months ended December 31, 1991 were \$131,249 and \$277,230, respectively. Revenue from support services for the three months and six months ended December 31, 1990 were \$153,880 and \$301,762 respectively. Increases in rental revenues at EOG/NY in 1991 were attributable to higher occupancy than comparable quarters in 1990. Discontinuation of support services with no or low margins, resulted in a decrease of support service revenue despite higher overall occupancy levels.

Revenue from office rentals for EOG/DC during the three months and six months ended December 31, 1991 were \$237,998 and \$491,498, respectively. Revenue from office rentals for the three months and six months ended December 31, 1990 were \$230,369 and \$454,640 respectively. Revenue from support services for EOG/DC during the three months and six months ended December 31, 1991 were \$116,074 and \$232,730, respectively. Revenue from support services for the three months and six months ended December 31, 1990 were \$102,422 and \$193,255 respectively. The increase in revenues from office rentals and support services was due to higher occupancy rates.

Revenue from office rentals for EOG/VA during the three months and six months ended December 31, 1991 were \$210,308 and \$439,174, respectively. Revenue from office rentals for the three months and six months ended December 31, 1990 were \$218,918 and \$422,958 respectively. Revenue from support services for EOG/VA during the three months and six months ended December 31, 1991 were \$136,488 and \$303,589, respectively. Revenue from support services for the three months and six months ended December 31, 1990 were \$159,680 and \$282,097 respectively. Increases in rental revenues for office rentals and support services for the six months ended December 31, 1991 were primarily due to higher occupancy levels. The decrease in these revenues for the three months ended December 31, 1991 were attributed to lower occupancy levels during the quarter ended December 31, 1991.

Over a period of time executive suites typically build up a core group of tenants that remain in the Suite for long periods of time. As this core group of tenants increases, the Suite falls into a narrower range in which revenues will fluctuate. When an Executive Suite reaches this level of maturity, as with EOG/DC, growth comes primarily from price increases and the introduction of new billable services.

Total costs and expenses for the three months and six months December 31, 1991 were \$1,705,822 and \$3,101,468, respectively. Rent expense increased in the three months and six months ended December 31, 1991 compared with the three months and six months ended December 31, 1990 due to normal operating and tax escalation. Expenses for support services decreased as a result of the discontinuation of unprofitable services. For the six months ended December 31, 1991, there was an approximate \$514,000 increase in General and Administrative expenses. Almost two-thirds of the increase is attributable to higher salary costs from the hiring of additional corporate personnel and staff at the individual locations. The balance of the increase was spread out among all other expenses.

Expenses for rent and support services when expressed as a percentage of income from office rentals and support services were approximately 70.3% and 66.2% for the three months and six months ended December 31, 1991 respectively, as compared to 72.5% and 74.5% for the respective comparable periods of the prior year.

For the six months ended December 31, 1991, the Company had a net loss of (\$387,049) as compared to a net loss of (\$100,358) for the six months ended December 31, 1990. For the three months ended December 31, 1990, the Company had a net loss of (\$262,263) as compared to \$8,801 for the three months ended December 31, 1990.

The Company currently has an outsized corporate overhead for its current level of operations. In the event the Company receives additional outside financing, the Company would seek to expand its operations to appropriate locations and create economies of scale and efficiency, thereby improving the margins of the business. The Company believes that it could add on locations with a small incremental increase to corporate overhead.

Liquidity and Capital Resources

At December 31, 1991, cash amounted to \$9,770 as compared to \$132,868 at June 30, 1991. The foregoing amounts exclude restricted cash of \$204,671. Restricted cash in the form of a certificate of deposit secures a stand-by letter of credit issued to the landlord of the executive office suite facility in New York City and the facility in Reston, Virginia.

For the six months ended December 31, 1991, the Company had a net loss of \$(387,049) as compared to a net loss of \$(100,338) for the six months ended December 31, 1990. Included are a total of \$263,280 of non-cash expenses for the first six months of 1991 (\$129,184 of deferred rent expenses and \$134,016 of depreciation and amortization) and \$208,997 of non-cash expenses for the first six months of 1990 (\$93,839 of deferred rent expenses and \$115,158 of depreciation and amortization).

For the first six months of fiscal 1992, net cash was used in operations. Cash flows from changes in operating assets and liabilities increased principally due to an increase in accounts payable and security deposits. For the first six months of fiscal 1992, the Company invested its cash toward the purchase of property and equipment. Cash flows were provided by financing activities from the issuance of the Company's notes partially offset by the repayment of long-term debt.

The Company's receivables at December 31, 1991 amounted to \$249,810 as compared to \$245,036 at June 30, 1991. Rent is due in advance on the first day of each month. Billings for other services are due on the first day of each month covering a prior monthly period commencing and ending on the fifteenth day of each month.

The Company has relied principally on external sources of liquidity including the sale of its securities, capitalized leased transactions and long-term debt transactions. Although the Company has a working capital deficit at December 31, 1991, the Company intends to meet its anticipated operating costs and liquidity needs on a short term and long term basis from funds provided by operations supplemented by external financing when, as and if available to the Company. The Company intends to seek additional financing via public or private methods to improve the Company's cash and working capital positions and to expand operations. No assurances can be given that such financing will be available, or if available, that such financing can be obtained on terms satisfactory to the Company. At December 31, 1991, the Company had no material commitments for capital expenditures or long term credit agreements. In addition, there are no known demands, events or uncertainties that are reasonably likely to result in the Company's liquidity decreasing in any material way.

PART II - OTHER INFORMATION

- Item 1. Legal Proceedings: None
- Item 2. Changes in Securities: None
- Item 3. Defaults Upon Senior Securities: None
- Item 4. Submission of Matters to a Vote of Security Holders:
None
- Item 5. Other Information: Not Applicable
- Item 6. Exhibits and Reports on Form 8-K:
(a) Exhibits - None
(b) During the quarter ended December 31, 1991, the Company filed two Form 8-Ks regarding two acquisitions.

EXECUTIVE OFFICE GROUP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXECUTIVE OFFICE GROUP, INC.

(Registrant)

Dated: March 10, 1992



David Beale (President, Chief
Accounting and Financial
Officer and Treasurer)

032331

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549



92078313

Q - 3232

FORM 10-Q

14
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 028
 MAR 11 1992

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended January 26, 1992

92-2274

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 0-19103

Farrel Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-2689245

(I.R.S. Employer
Identification No.)

PROCESSED BY

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MAR 10 1992

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Data Corp. - St. Petersburg, FL

25 Main Street, Ansonia, Connecticut, 06401
(Address of principal executive offices) (Zip Code)
(203) 736-5500

Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or
for such shorter period that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of
the latest practicable date.

CLASSOUTSTANDING AT MARCH 10, 1992

Common Stock (Voting), \$.01 par value

6,142,106

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly in accordance with generally accepted accounting principles, the consolidated financial position of Farrel Corporation as of January 26, 1992, the consolidated results of its operations for the three months and the nine months ended January 26, 1992 and January 27, 1991, and its consolidated cash flows for the nine month periods ended January 26, 1992 and January 27, 1991. These results are not necessarily indicative of results to be expected for the full fiscal year.

FARREL CORPORATION
CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS OF DOLLARS)

ASSETS	January 26, 1992 (unaudited)	April 30, 1991
Current Assets:		
Cash and cash equivalents	\$ 1,621	\$ 3,551
Stock proceeds receivable	17,670	-
Accounts receivable, net of allowance	19,949	16,753
Inventory (note 1)	14,977	19,600
Loans to stockholder	1,500	1,500
Other current assets	<u>1,454</u>	<u>1,934</u>
Total current assets	\$ 57,171	\$ 43,338
Property, plant and equipment - net of accumulated depreciation	<u>7,909</u>	<u>8,559</u>
	<u>\$ 65,080</u>	<u>\$ 49,897</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 11,847	\$ 14,940
Accrued expenses & taxes	4,525	4,720
Short term debt	7,080	-
Advances from customers	7,960	11,089
Accrued installation & warranty costs	<u>4,115</u>	<u>6,640</u>
Total current liabilities	35,527	35,209
Long Term debt	896	845
Deferred income taxes	1,233	1,055
Stockholders' equity:		
Preferred stock, par value \$100, 1,000,000 shares authorized, no shares issued	-	-
Common stock, par value \$.01, 10,000,000 shares authorized, 6,000,000 shares outstanding at January 26, 1992, 5,483,870 shares outstanding at April 30, 1991	60	55
Paid in capital	16,539	945
Cumulative translation adjustment	455	217
Retained earnings	<u>10,370</u>	<u>11,551</u>
Total Stockholders' Equity	<u>27,424</u>	<u>12,768</u>
	<u>\$ 65,080</u>	<u>\$ 49,897</u>

See Accompanying Notes to Consolidated Financial Statements

FARREL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands of dollars except per share data)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 26,</u>	<u>January 27,</u>	<u>January 26,</u>	<u>January 27,</u>
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
	(unaudited)		(unaudited)	
Net sales	\$ 24,067	\$ 23,236	\$ 70,914	\$ 77,543
Cost of sales	<u>17,215</u>	<u>17,736</u>	<u>50,713</u>	<u>52,308</u>
Gross margin	6,852	5,500	19,901	19,235
Operating expenses:				
Selling	1,885	2,283	5,678	6,024
General & administrative	2,892	2,910	8,114	7,797
Research & development	<u>577</u>	<u>591</u>	<u>1,673</u>	<u>1,517</u>
Total operating expenses	5,354	5,784	15,465	15,338
Operating income/(loss)	1,498	(384)	4,436	3,917
Other income/(expense):				
Other expense, net of other income	(79)	(267)	(71)	(426)
Interest income	55	41	249	349
Interest expense	<u>(73)</u>	<u>(36)</u>	<u>(482)</u>	<u>(185)</u>
Income/(loss) before provision for income taxes	1,401	(548)	4,129	2,646
Provision for income taxes/(benefits)	<u>506</u>	<u>(247)</u>	<u>1,550</u>	<u>883</u>
Net income / (loss)	<u>\$ 895</u>	<u>\$ (301)</u>	<u>\$ 2,579</u>	<u>\$ 1,763</u>
Per share data:				
Net income/ (loss) per share	<u>\$.179</u>	<u>\$ (.055)</u>	<u>\$.477</u>	<u>\$.325</u>
Weighted average number of shares outstanding	<u>5,263,382</u>	<u>5,483,870</u>	<u>5,409,812</u>	<u>5,483,870</u>
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying Notes to Consolidated Financial Statements

PARREL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of dollars)

	<u>Ring Months Ended</u>	
	<u>JANUARY 26,</u>	<u>JANUARY 27,</u>
	<u>1992</u>	<u>1991</u>
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 2,579	\$ 1,783
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on disposal of fixed assets	(78)	-
Depreciation and amortization	866	594
(Increase) decrease in accounts receivable	(2,655)	133
Decrease in inventory	4,771	4,472
Decrease in accounts payable	(4,197)	(2,792)
Decrease in customer advances	(3,287)	(4,198)
(Increase) decrease in prepaid income taxes	1,069	(653)
Increase (decrease) in accrued expenses & taxes	(219)	932
Decrease in accrued installation and warranty costs	(409)	(205)
Increase in deferred income taxes	<u>171</u>	<u>361</u>
Other	(797)	578
Total adjustments	<u>(4,809)</u>	<u>(778)</u>
Net cash provided by (used in) operating activities	<u>(2,230)</u>	<u>1,005</u>
Cash flows from investing activities:		
Proceeds from disposal of fixed assets	82	-
Purchases of property, plant and equipment	<u>(2,070)</u>	<u>(2,860)</u>
Net cash used in investing activities	<u>(1,988)</u>	<u>(2,860)</u>
Cash flows from financing activities:		
Net proceeds from bank loans	7,088	1,129
Repurchase of common stock	(3,900)	-
Initial public offering expenses paid to date	<u>(958)</u>	<u>-</u>
Net cash provided by financing activities	<u>2,222</u>	<u>1,129</u>
Effect of exchange rate changes on cash	<u>66</u>	<u>138</u>
Net decrease in cash and cash equivalents	(1,930)	(588)
Cash and cash equivalents - Beginning of period	<u>3,551</u>	<u>1,845</u>
Cash and cash equivalents - End of period	<u>\$ 1,621</u>	<u>\$ 1,257</u>

See accompanying Notes to Consolidated Financial Statements

FARREL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

Supplemental Information:

1. On January 17, 1992, the Company issued 2,000,000 shares of common stock in an initial public offering. After deducting underwriting fees of \$1,330,000, the net proceeds receivable of \$17,670,000 are included in current assets. Corresponding credits of \$20,000 and \$17,650,000 have been recorded to the common stock and paid in capital accounts, respectively.
2. As per Note 2(b), the Company repurchased common stock at a cost of \$4,131,000 of which \$3,900,000 has been paid. The remaining \$231,000 is reflected in accounts payable.
3. Initial public offering expenses are estimated to be \$1,700,000 and, accordingly, paid in capital has been reduced by that amount on the balance sheet. As of January 26, 1992, \$958,000 has been paid. The remaining \$742,000 is reflected in accounts payable.

See Accompanying Notes To Consolidated Financial Statements.

FARREL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Inventory

Inventory is comprised of the following:

	<u>January 26,</u> <u>1992</u>	<u>April 30,</u> <u>1991</u>
	(In thousands)	
Stock and raw materials.....	\$11,389	\$ 9,424
Work-in process.....	3,588	10,176
Finished goods.....		
Total.....	<u>\$ 14,977</u>	<u>\$19,600</u>

Note 2 - Stockholders' Equity

(a) Stock Option and Stock Purchase Plans:

On January 12, 1992, the Board of Directors of the Company approved the establishment of the 1992 Stock Option Plan and the 1992 Employees' Stock Purchase Plan.

The stock option plan authorizes the granting of incentive stock options and non-qualified stock options to purchase up to 600,000 shares of common stock. Option awards may be granted to eligible employees and non-employee directors. The exercise price of the options may not be less than fair market value as of the date of grant (or 110% in the case of an incentive stock option granted to a 10% stockholder). Options granted would become exercisable by employees in cumulative installments over a four year period of employment after the date of grant. Each non-employee director would be granted each year a non-qualified stock option to purchase 3,000 shares. The non-employee directors were granted such option for 1992. The President of the Company was granted non-qualified stock options to purchase 40,000 shares at the closing of the initial public offering. In addition, the President of the Company will be granted options to purchase 40,000 shares per year in 1992, 1993 and 1994.

The stock purchase plan gives each employee of the Company the right to purchase, in each of the years 1992 through 1996, shares of common stock equivalent in value to not more than 5% of the employee's annual compensation, up to a maximum of \$25,000 per year. The purchase price will be the lower of 85% of the fair market value of the common stock on the date the right is granted or 85% of the fair market value on the date the applicable purchase period ends. Not more than an aggregate of 500,000 shares of common stock may be purchased under the stock purchase plan. Any employee who, after the purchase, would hold 5% or more of the common stock would be ineligible.

(b) Common Stock Transactions:

On December 31, 1991, the Company purchased 1,483,870 shares of its common stock from certain stockholders pursuant to a purchase option. The aggregate cost to the Company was \$4,131,000, including fees, which was charged to common stock, paid in capital, and retained earnings in the amounts of \$15,000, \$356,000, and \$3,760,000, respectively. These shares were retired.

On January 17, 1992, the Company issued two million shares of common stock in an initial public offering at a price of \$9.50 per share. After deducting the underwriting fees of \$1,330,000, the net proceeds to the company were \$17,670,000. The proceeds of the issuance were received from the underwriters on January 27, 1992. In addition, estimated offering expenses of \$1,700,000 were paid or accrued.

Subsequent to the end of the current fiscal quarter, on January 29, 1992, the Company issued an additional 300,000 shares of common stock in connection with the initial public offering upon the exercise by the underwriters of an option to purchase the additional shares. The net proceeds to the Company were \$2,650,500. Also, on January 27, 1992, the Company purchased, and retired, 157,894 shares of its common stock from its President and majority stockholder at the \$9.50 public offering price by canceling the President's indebtedness to the Company in the amount of \$1,500,000. These transactions will be recorded in the fourth fiscal quarter.

Note 3 - Short Term Debt

The short term debt of \$7,080,000 at January 26, 1992, represents amounts borrowed in December, 1991 and January, 1992 to fund the acquisition of common stock described in Note 2 (b) and for temporary working capital needs. The short term debt was repaid on January 28, 1992.

Note 4 - Net Income/(Loss) Per Share

Net income/(loss) per share is computed by dividing the net income for the applicable period by the weighted averaged number of shares of common stock outstanding during the period. All share and per share amounts in the accompanying financial statements have been adjusted to give retroactive effect to a 645.16129 to 1 stock split on October 24, 1991 when the Company amended its certificate of incorporation to increase the number of authorized shares of common stock from 10,000 to 10,000,000.

Note 5 - Dividends

Subsequent to January 26, 1992, the Board of Directors on March 3, 1992 declared a dividend of \$.04 per share. Dividends are payable on March 31, 1992 to stockholders of record on March 17, 1992.

Note 6 - FAS No. 106

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS No. 106"). FAS No. 106 will significantly change the prevailing practice of accounting for postretirement benefits on a cash basis by requiring accrual of the expected costs of these benefits during the years that the employees render services. The Company is required to adopt the new accounting and disclosure rules no later than its 1994 fiscal year, although earlier adoption is permitted. The Company may adopt the new standard prospectively or via a catch-up adjustment. The Company has not yet determined when it will adopt FAS No. 106, nor has the Company completed the analysis required to estimate the impact of the new standard.

Note 7 - Contingencies

In July 1991, the Company was named as one of three third-party defendants in an action brought by Temple Associates, Inc. against John Brown Engineering & Construction, Inc. and Mobil Oil Corporation, which action was pending in the U.S. District Court for the Eastern District of Texas, Beaumont Division. On February 28, 1992, this case was dismissed.

At the time the Company purchased the assets of Farrel Company, the Company specifically did not assume or agree to be responsible for claims asserted with respect to machinery that was manufactured and shipped prior to the date of the acquisition. The Company, or its predecessors, has been named as a defendant in 25 personal injury matters alleging that machinery manufactured and shipped prior to the Company's acquisition of assets from USM was defective. The aggregate amount of damages sought by the plaintiffs in these actions is not determinable at this time. USM has assumed the defense of each of these suits on behalf of the Company. While the Company does not believe that it will incur any material liability in these actions, no assurance can be given that the Company will not have any successor liability in any of these actions or that the aggregate amount of liability assessed against the Company, if any, will not be material. In the event of any such liability, the Company would seek to recover any losses in connection therewith from USM, although no assurance can be given that the Company would be successful.

For a discussion of other contingencies, see Notes 9(b) and 9(c) to the Consolidated Financial Statements of the Registrant as of April 30, 1991 filed as part of Registration Statement No. 33-043539.

**PART I - ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
& RESULTS OF OPERATIONS**

Results of Operations

The following table sets forth the statement of operations items as a percentage of net sales for each of the fiscal periods shown:

	FARREL CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (as a percent of net sales)			
	Three Months Ended		Nine Months Ended	
	January 26, 1992	January 27, 1991	January 26, 1992	January 27, 1991
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	71.6	76.3	71.8	76.5
Gross margin	28.4	23.7	28.2	23.5
Operating expenses:				
Selling	7.8	9.8	8.0	7.7
General & administrative	12.0	12.6	11.5	10.1
Research & development	2.4	2.5	2.4	2.0
Total operating expenses	22.2	24.9	21.9	19.8
Operating income/(loss)	6.2	(1.2)	6.3	3.7
Other income/(expense):				
Other expense, net of other income	(0.3)	(1.2)	(0.1)	(0.3)
Interest income	0.2	0.2	0.4	0.4
Interest expense	(0.3)	(0.2)	(0.7)	(0.2)
Income/(loss) before provision for income taxes	5.8	(2.4)	5.9	3.4
Provision for income taxes/(benefits)	2.1	(1.1)	2.2	1.1
Net income / (loss)	3.7%	(1.3%)	3.7%	2.3%

Nine Months Ended January 26, 1992 Compared to Nine Months Ended January 27, 1991

Net sales for the first nine months of fiscal 1992 were \$70.6 million, \$7.0 million below \$77.6 million reported for the same period of fiscal 1991. This variance includes a negative foreign currency conversion effect of \$1.2 million. Sales of new machinery and process engineering services of \$43.5 million for the first nine months of fiscal 1992 were \$4.8 million lower than the comparable period of the prior year, due primarily to lower overseas sales levels resulting from the continuing worldwide recession, and political and economic unrest in Eastern Europe, the Middle East and China. The Company believes that the worldwide recession has caused its customers to experience a general decline in the demand for their products, and has resulted in postponement of expenditures by such customers for new equipment and a corresponding decline in sales of the Company's products. The Company has closely monitored operating costs and hiring levels to bring them in line with such lower sales levels. Aftermarket sales were \$27.1 million for the first nine months of fiscal 1992, or \$2.2 million lower than the comparable period of the prior year.

The Company's ability to increase net sales levels will depend upon a recovery in the Company's primary markets and a corresponding increase in order activity. During the first nine months of fiscal 1992, orders decreased to \$60.6 million from \$63.2 million during the comparable period in fiscal 1991. In fact, the dollar volume of sales orders increased by \$3.5 million during the nine months ended January 26, 1992 but were more than offset by the effects of a negative \$6.1 million foreign currency conversion on the consolidated backlog. The volume increase was primarily attributable to an increase in orders from the Company's customers in the plastics industry, particularly in the value-added mixing segment of the market. There can be no assurance that this increase in order activity is indicative of a recovery in the Company's primary markets or that orders and backlog will increase in the future or that they will not again decline.

Backlog at the end of the nine-month period ended January 26, 1992 was \$44.2 million, compared to \$58.0 million at January 27, 1991. The decline in backlog is due in part to the general economic slowdown in the United States and Western Europe, which caused certain of the Company's customers to reduce or postpone planned capacity additions, and political and economic unrest in Eastern Europe, the Middle East and China which caused certain of the Company's customers in those regions to postpone capital spending programs. The backlog as of March 6, 1992, was \$48.5 million, or \$4.3 million higher than the quarter ending results.

The Company has shortened the lead time required to deliver certain new equipment from over one year to approximately six months, resulting in individual equipment orders generally spending less time in backlog. The Company has also increased the portion of its revenues derived from aftermarket sales, which have significantly faster turnaround times than new equipment sales. The effect of these two trends, assuming a level volume of net sales, is to reduce average backlog. Assuming no significant worsening of political and economic conditions, the Company believes that the decline in backlog in recent years to the current level will not have a material adverse effect on the Company.

Gross margin increased to \$19.9 million in the first nine months of fiscal 1992 from \$18.3 million in the first nine months of fiscal 1991 and gross margin as a percentage of net sales increased to 28.2% from 23.5%. The increase in gross margin was primarily due to significantly higher margins on new equipment sales, more efficient purchasing practices, reduced engineering overhead, reduced provisions for excess and obsolete inventory and the favorable settlements of an insurance claim and a contract dispute. These gains were offset in part by higher warranty and installation expenses as well as the negative effect of foreign currency conversions.

Selling expenses decreased \$346,000 primarily due to lower overall selling expenses, partly offset by added costs associated with increased participation in trade shows.

General and administrative expenses increased \$317,000 in the first nine months of fiscal 1992 compared to the first nine months of fiscal 1991. In an effort to decrease warranty and installation expenses, the Company has put into place a total quality improvement program. These expenses and higher overall administrative salaries and related fringe benefit expenses accounted for a large part of the increase. Due to the fixed nature of these expenses and lower sales levels, general and administrative expenses as a percentage of net sales increased from 10.1% in the first nine months of fiscal 1991 to 11.5% in the first nine months of fiscal 1992. Research and development expenses increased \$156,000 reflecting the Company's ongoing development efforts.

Other expense, exclusive of interest income and interest expense, decreased by \$355,000 in the first nine months of fiscal 1992 compared to the comparable prior year period due to reductions in foreign exchange losses and miscellaneous other expenses.

Interest expense increased by \$320,000 to \$485,000 in the first nine months of fiscal 1992 compared to the first nine months of fiscal 1991. The increase was due primarily to interest charges associated with the sale of certain receivables under the terms of a temporary credit facility with a major U.K. bank.

Income tax expense as a percentage of pre-tax income increased to 37.5% in the first nine months of fiscal 1992 from 33.1% in the first nine months of fiscal 1991.

Three Months Ended January 26, 1992 Compared To Three Months Ended January 27, 1991

Net sales for the quarter ended January 26, 1992 were \$24.1 million or \$.9 million higher than the \$23.2 million reported for the same period in fiscal 1991. Sales of new machines and process engineering services of \$14.9 million were \$1.5 million higher than the same three month period in the prior year, primarily the result of a major order involving a significant amount of process engineering services. Aftermarket sales were \$.6 million lower than the comparable prior year period.

Orders received by the Company during the quarter ended January 26, 1992 were \$15.3 million, down \$8.6 million from the same quarter in the previous year, primarily the result of two major machine orders related to plant/production expansions, valued at \$6.4 million, which were received in the third quarter 1991. Although the Company continues to receive large orders related to plant/production expansions, it is difficult to predict the timing of the actual bookings. This can result in significant quarterly variances, especially when two or more of these orders are received in the same quarter. In addition to the impact of these two machine orders, bookings decreased due to the worldwide recession and political unrest in Eastern Europe, the Middle East, and China.

Gross margin of \$6.9 million is \$1.4 million greater than the previous year's comparable quarterly margin, and gross margin as a percentage of sales was 28.4%, or 4.7% higher. This increase is the result of higher net sales and improved new equipment margins, plus lower overseas sales commissions and engineering expense. Improved inventory procedures resulted in reduced provisions for excess and obsolete inventory. Gross margin also improved due to the favorable settlement of an insurance claim.

Selling expenses of \$1.9 million are \$.4 million lower than last year's third quarter and the percentage of sales of 7.8% is 2% lower than the comparable prior year period. This is the result of lower overall selling expenses and an adjustment made in the third quarter 1991 to reclassify certain cost of sales accounts to properly reflect the cumulative nine month results.

Other expense, net of other income of \$79,000, is \$188,000 less than the comparable prior year quarter due primarily to reductions in foreign exchange losses and a loss on the sale of a fixed asset in the prior year's quarter.

Income tax expense as a percentage of pretax income was 36.1% compared to a tax benefit in the previous year's third quarter of 45.1% resulting from the effects of a consolidated loss and differing local tax rates.

Liquidity and Capital Resources; Capital Expenditures

Working capital at January 26, 1992 was \$21.6 million, or \$13.5 million higher than at April 30, 1991. The primary reason for the increase in working capital was due to the Company's initial public stock offering. The ratio of current assets to current liabilities was 1.6 to 1 at January 26, 1992 and 1.2 to 1 on April 30, 1991.

Due to the nature of the Company's business, many sales are of a large dollar amount. Consequently, accounts receivable and/or inventory may be temporarily at high levels which may result in a temporary decline in cash provided from operating activities. Historically, the Company has not experienced significant problems regarding the collection of accounts receivable. The Company has historically financed its activities with cash generated by operations and with borrowings under its bank credit facilities. The Company currently has individual credit facilities in the U.S. and the U.K.. The principal reason the Company incurs indebtedness under these facilities is to fund working capital requirements.

The Company's credit agreement in the U.S. is with a major U.S. bank under which it is authorized to borrow up to the lesser of \$10 million or an amount equal to the sum of stipulated percentages of eligible real property, receivables and inventory. This credit facility may also be utilized for letters of credit and acceptances. Outstanding amounts are secured by a pledge of substantially all of the U.S. assets of the Company, including mortgages on real property. The agreement contains certain restrictions on the making of investments, loans and capital expenditures, on borrowings, and on the sales of assets. It limits the payment of dividends to 50% of the Company's cumulative consolidated net income during the eight fiscal quarters preceding the date of the dividend or since May 1, 1991, whichever period is shorter (after deducting distributions previously made during the period). The agreement requires the maintenance of minimum levels of net worth, as defined, and maximum ratios of total liabilities, as defined, to net worth, as well as the maintenance of stipulated levels of operating profit and backlog. Interest is payable monthly and accrues on the outstanding loan balance at the bank's prime rate plus one percent. The agreement terminates on December 31, 1992.

The credit agreement was amended as of November 27, 1991, to increase the amount available thereunder by an additional \$5 million for the sole purpose of making available to the Company a sufficient amount of funds to purchase 1,483,870 shares of common stock from certain stockholders. The increased commitment expired on February 28, 1992. On January 14, 1992, \$3.8 million was borrowed for this purpose and the Company subsequently repaid the borrowings thereunder on January 28, 1992.

In addition to the aforementioned borrowings of \$3.8 million, another \$3.3 million was outstanding under the credit agreement at January 26, 1992, for an aggregate total of \$7.1 million. This \$3.3 million was also repaid on January 28, 1992. At January 26, 1992, letters of credit outstanding amounted to \$1.3 million.

The Company's credit facility in the U.K. is with a major U.K. bank and is for a total of 7.3 million pounds sterling (or \$13.1 million at January 26, 1992) under which it may borrow up to 2.5 million pounds sterling (or \$4.5 million at January 26, 1992) for working capital requirements. The balance of the facility is available in the form of bank guarantees. Interest is charged at the bank's base rate plus 1 1/4 percent. The facility is secured by the fixed assets and receivables of the Company's U.K. subsidiary. At January 26, 1992 there were no loans outstanding under this arrangement. Letters of credit amounted to 3.3 million pounds sterling (or \$5.9 million at January 26, 1992). The agreement terminates on April 23, 1992.

The Company has a long-term loan in the amount of 500,000 pounds sterling (or \$896,000 at January 26, 1992), from the same U.K. bank, which matures in January 1999 with semiannual principal payments commencing in 1995. The proceeds were used to refurbish the Company's U.K. facilities. The interest on this loan is 10% per annum except that, for the first five years of the term, certain rebates of interest may be granted by the bank under certain circumstances.

The Company anticipates that it's operating cash flows, available lines of credit and the net proceeds of the stock offering will be adequate to fund its anticipated capital commitments and working capital requirements for at least the next twelve months.

Through the nine months ended January 26, 1992 the Company had capital expenditures of \$2,070,000, down \$790,000 from accumulated capital spending at January 27, 1991.

Subsequent to January 26, 1992, the Board of Directors on March 3, 1992 declared a dividend of \$.04 per share. Dividends are payable on March 31, 1992 to stockholders of record on March 17, 1992.

Contingencies:

In July 1991, the Company was named as one of three third-party defendants in an action brought by Temple Associates, Inc. against John Brown Engineering & Construction, Inc. and Mobil Oil Corporation, which action was pending in the U.S. District Court for the Eastern District of Texas, Beaumont Division. On February 28, 1992, this case was dismissed.

At the time the Company purchased the assets of Farrel Company, the Company specifically did not assume or agree to be responsible for claims asserted with respect to machinery that was manufactured and shipped prior to the date of the acquisition. The Company, or its predecessors, has been named as a defendant in 25 personal injury matters alleging that machinery manufactured and shipped prior to the Company's acquisition of assets from USM was defective. The aggregate amount of damages sought by the plaintiffs in these actions is not determinable at this time. USM has assumed the defense of each of these suits on behalf of the Company. While the Company does not believe that it will incur any material liability in these actions, no assurance can be given that the Company will not have any successor liability in any of these actions or that the aggregate amount of liability assessed against the Company, if any, will not be material. In the event of any such liability, the Company would seek to recover any losses in connection therewith from USM, although no assurance can be given that the Company would be successful.

For a discussion of other contingencies, see Notes 9(b) and 9(c) to the Consolidated Financial Statements of the Registrant as of April 30, 1991 filed as part of Registration Statement No. 33-043539.

PART II - OTHER INFORMATION

**ITEM 1 - LEGAL PROCEEDINGS - See Notes to Consolidated Financial Statements -
Notes 7**

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On January 12, 1992, five stockholders unanimously approved via written consent, the Farrel Corporation 1992 Employees' Stock Purchase Plan, which grants the right to purchase shares of common stock of the Company, subject to the discretion of the Board of Directors. Under the Plan, on the annual offering date in May, 1992, and in May of the next succeeding four years, each employee of the Company would be eligible to purchase that number of shares of common stock having a purchase price equal to not more than five (5%) percent of the employee's annual compensation, subject to the maximum number of shares authorized by the Board of Directors for such annual grant period.

On January 12, 1992, five stockholders unanimously approved via written consent, the Farrel Corporation 1992 Stock Option Plan for key employees and non-employee directors. The Stock Option Plan was designed to promote the interest of the Company and its stockholders by providing eligible employees and non-employee directors with incentives so that the Company is able to attract and retain qualified personnel and directors. Under the Stock Option Plan, awards of incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986, as amended) and non-qualified stock options may be granted to eligible employees.

ITEM 6 - EXHIBITS

Exhibit 1.1 - Notes 9(b) and 9(c) to Registrant's Consolidated Financial Statements as of April 30, 1991 filed as part of Registration Statement No. 33-043539.

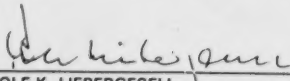
SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934,
THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF
BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED

FARREL CORPORATION
REGISTRANT

DATE: _____

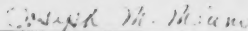
3/6/92



ROLF K. LIEBERGESELL
CHIEF EXECUTIVE OFFICER
PRESIDENT AND CHAIRMAN OF THE BOARD

DATE: _____

3/6/92



JOSEPH M. MILANO
VICE PRESIDENT - FINANCE
TREASURER AND CHIEF FINANCIAL OFFICER

FARREL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the years ended April 30, 1989, 1990 and 1991
(Information as of October 27, 1991 and for the six-month periods
ended October 28, 1990 and October 27, 1991 is unaudited)

Note 9—Commitments and Contingencies

(b) Contingencies—Environmental:

In 1988, the Company and approximately 196 other entities were named as third party defendants in United States District Court under the federal Superfund recovery statutes. The primary defendants are seeking to recover monies expended or expected to be expended for the control and clean-up of two landfills located in Connecticut. The matters are expected to terminate in the Company's favor and the Company believes it is unlikely that it will incur any material liability in respect of these landfills.

In 1986, in connection with the Acquisition, the Company and USM entered into an Environmental Indemnification Agreement dated as of May 12, 1986 (the "Environmental Indemnification Agreement"). The Environmental Indemnification Agreement contains a provision pursuant to which USM agreed to indemnify the Company for losses resulting from environmental claims, up to an aggregate of \$5 million, arising out of or based upon the acts or omissions of USM and its predecessors prior to the Acquisition. An environmental claim is defined in terms of a regulatory requirement or demand by a third party for damages arising from environmental contamination at the former Farrel Division facilities. The agreement requires the Company to notify USM of all claims for indemnification pursuant thereto within 10 years, or prior to May 12, 1996. In addition, the agreement provides for apportionment of claims by persons other than employees for events occurring both prior to and subsequent to the date of the Acquisition. Such apportionment is to be based upon a fair and equitable assessment of various factors, including the time of the occurrence and its magnitude and severity. Such assessment will be based upon an agreement between the parties or, in the absence of agreement, by a court of competent jurisdiction. A separate apportionment provision based on length of service for claims by employees is also included in the agreement.

In view of the terms of the Environmental Indemnification Agreement, including the ten-year time limit for making claims thereunder, as well as the results of an environmental study commissioned by a potential purchaser of real estate from the Company, which revealed contamination at that site, the Company retained HRP Associates, Inc. ("HRP"), environmental consultants, to investigate subsurface contamination at its facilities in Derby and Ansonia, Connecticut. HRP's investigation included the collection of soil samples, the installation of ground water monitoring wells, identification of underground storage tanks, inspection of transformers and capacitors, review of available files of the State of Connecticut Department of Environmental Protection (the "DEP"), interviewing of facility employees, research of historical background and a visual inspection of the properties. HRP's investigation found the existence of subsurface contamination at the Company's Ansonia and Derby properties, which findings were summarized in reports prepared by HRP. On the basis that HRP found evidence of historical spills and discharges, the Company transmitted several of the HRP reports to the DEP and the Region I Office of the United States Environmental Protection Agency (the "EPA") in 1989. To date, the Company has incurred costs of \$250,000, exclusive of attorneys' fees, for environmental investigation and remediation voluntarily undertaken at Derby and Ansonia. At the Company's request, HRP has identified additional investigations and remedial work that may be required to comply with present laws and regulations. The nature and extent of such future remedial work could include: ground water monitoring, the removal and/or remediation (such as soil venting) of contaminated soil, the remediation of ground water and the removal of underground storage tanks.

FARREL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the years ended April 30, 1989, 1990 and 1991
(Information as of October 27, 1991 and for the six-month periods
ended October 28, 1990 and October 27, 1991 is unaudited)

Note 9—Commitments and Contingencies—(Continued)

In May 1989, the Company instituted a suit against USM, Emhart and certain affiliates, which was originally brought in Connecticut state court and is now pending in the United States District Court for the District of Connecticut at Hartford, with respect to the Company's Ansonia and Derby facilities. The complaint includes counts based on Superfund and other related counts as follows: a count alleging USM's noncompliance with the Connecticut Transfer Act (Conn. Gen. Stat. § 22a-134 *et seq.*) (the "Transfer Act") in conveying the Ansonia and Derby properties (the Company believes the required filing was not made for the Ansonia property and a filing which the Company believes may have been defective was made in respect of the Derby property); counts based upon fraud and misrepresentation based on USM's representations as to the environmental conditions at the Ansonia and Derby facilities; a contract count based on the Environmental Indemnification Agreement; a count based on the Connecticut Unfair Trade Practices Act (Conn. Gen. Stat. § 42-110b *et seq.*) alleging USM made misleading and fraudulent representations as to the environmental conditions at the Ansonia and Derby facilities; a count seeking reimbursement of costs expended by the Company to mitigate the effects of contamination at the Ansonia and Derby facilities pursuant to Conn. Gen. Stat. § 22a-452 and a count seeking the same relief pursuant to Conn. Gen. Stat. § 22a-451.

The Superfund counts, the Transfer Act count and the statutory cost recovery count under Conn. Gen. Stat. § 22a-452 are premised on strict liability and any relief under said counts would be independent of the Company's rights under the Environmental Indemnification Agreement. Under the Superfund statutes, the owner or operator of a site at the time hazardous substances are released to the environment is jointly and severally liable with the current owner and operator of the site for remediation costs which are consistent with the National Contingency Plan. In addition, the current owner or operator is entitled to seek contribution from the previous owner or operator for such remediation costs. Under Conn. Gen. Stat. § 22a-452, any person who mitigates contamination caused by the negligence or other actions of another party is entitled to reimbursement from such party of reasonable costs expended for such mitigation.

The relief sought in the suit against Emhart is the recovery of all expenditures for investigation and remediation and a declaratory judgment that USM and related defendants are liable for any required remediation in the future in connection with the sites located in Ansonia and Derby. To date, Emhart has generally denied the allegations in the Company's complaint and the parties are proceeding with discovery. The Company intends to prosecute the action vigorously. There is no assurance, however, that the Company will prevail in its suit against USM or that, if it should prevail, USM will be able to meet its obligations thereunder or that any such recovery from USM would cover all remediation costs incurred by the Company.

HRP has preliminarily advised the Company that, in its opinion, the initial capital cost (exclusive of ongoing monitoring and maintenance) related to further investigating and remediating known conditions identified to date at the Company's Ansonia and Derby properties, other than the Parking Lot (discussed below), would more likely than not be less than \$2,000,000. HRP's cost estimate is based upon current information available to date, is subject to further remedial investigations and assumes that ground water remediation will not be required and that certain remedial techniques recommended by HRP, such as soil-gas venting, will be included in a remediation plan approved by governmental authorities.

FARREL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the years ended April 30, 1989, 1990 and 1991

(Information as of October 27, 1991 and for the six-month periods ended October 28, 1990 and October 27, 1991 is unaudited)

Note 9—Commitments and Contingencies—(Continued)

The Parking Lot is a surfaced parking lot located in Ansonia that has been used solely for parking while owned by the Company. The Parking Lot site was formerly a reservoir which the Company believes was filled in during the late 1940's or early 1950's. HRP's testing conducted during its investigation revealed that soil beneath the Parking Lot contains metal contaminants, though not at levels that exceeded federal thresholds for hazardous waste contamination, and that there has been no evidence of significant ground water contamination beneath the Parking Lot. Although current DEP informal guidelines regarding the removal and disposal of contaminated soils would require removal of the contaminated soil beneath the Parking Lot, HRP has recommended that the Company seek appropriate governmental approvals to leave the contaminated soil in place, to install a permanent impermeable cap on the property complying with federal regulations under the Resource Conservation Recovery Act ("RCRA") and to conduct on-going monitoring of ground water. HRP's recommendation as to the appropriateness of pursuing this alternative is based upon the industrial/commercial nature of the site, the availability of public water to the property and the lack of any evidence at this time of a significant impact of the site on ground water quality. HRP estimates that the cost of designing, installing, and certifying the "RCRA" cap (exclusive of on-going monitoring and maintenance) to range from \$1,300,000 to \$2,000,000. Should removal and off-site disposal of contaminated soil be required, it is HRP's opinion that the disposal of the contaminated soil to a local landfill or an out-of-state secure landfill, or a combination thereof, would be more likely than not approved by governmental authorities. HRP's estimates of the costs of excavating, sampling, transporting and disposing of the contaminated soil to a local landfill would range from \$5,000,000 to \$8,000,000 and to an out-of-state secure landfill to be \$8,000,000 to \$10,000,000. However, should additional soil testing identify metal contaminants at hazardous levels, HRP estimates that the costs of removing, transporting and disposing of the contaminated soil to a hazardous waste facility to be \$18,000,000. HRP's recommendations and cost estimates are based on current information regarding the site and are subject to further testings, input from regulatory agencies and confirmation of certain information such as soil weight and unit disposal costs.

The Company does not currently believe that costs to be incurred to comply with environmental laws and regulations relating to conditions at the Company's Connecticut facilities identified to date will have a material adverse effect on its financial condition. The Company's belief is based upon, among other things, (i) the advice of the Company's special environmental counsel, Murtha, Cullina, Richter and Pinney, concerning the status and the legal bases for environmental litigation with USM and Emhart; (ii) the Company's understanding of the underlying facts which give rise to its claims against USM; and (iii) technical advice received from HRP relating to the presence and/or nature and scope of subsurface contamination at the Ansonia and Derby properties and possible remediation options which could be required by the DEP and EPA with respect thereto. The cost of any actual remediation will depend on a plan of remediation approved by the appropriate governmental authorities in the future, and accordingly the precise costs thereof cannot be determined at this time. No assurance can be given, however, that the Company will not be required to incur significant costs with respect to conditions presently known to the Company, existing conditions not currently known by the Company or changes in existing regulations.

FARREL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the years ended April 30, 1989, 1990 and 1991

(Information as of October 27, 1991 and for the six-month periods ended October 28, 1990 and October 27, 1991 is unaudited)

Note 9—Commitments and Contingencies—(Continued)

The Company is a complainant against a former licensee before the International Chamber of Commerce Court of Arbitration in connection with the continued use by the licensee of technology of the Company upon expiration of a license and trademark agreement. The Company seeks damages of not less than \$12 million and punitive damages of not less than \$2 million and treble damages where authorized. The Company is also seeking to enjoin the licensee from further use of its technology. The licensee has counterclaimed and requests damages of approximately \$7.9 million alleging that the Company, while owned by USM, failed to make certain technical information available, damaged the licensee's commercial reputation and engaged in abuse of process by filing lawsuits against it. The Company has also filed a complaint with the U.S. International Trade Commission seeking to bar the licensee from importing certain products into the United States.

In January 1991, the Company was named as an additional defendant in a pending action, subsequently withdrawn, brought by more than 200 current and former employees of Cooper Tire & Rubber Company. The plaintiffs were seeking damages from the Company and 25 other defendants in the aggregate amount of \$26 million. The action in the Circuit Court of Miller County, Arkansas, alleged that equipment manufactured by the Company and the other defendants caused personal injury from excessive noise. The Company answered the complaint, denying the allegations. The Company's insurance carrier assumed the defense of this action on behalf of the Company. The court granted the plaintiffs' motion to withdraw the action without prejudice, meaning that the plaintiffs could reassert their claim.

Management believes that the outcome of the foregoing proceedings will not have a material adverse effect on the financial condition of the Company based upon (i) the current status of the proceedings, (ii) liability insurance carried by the Company, (iii) certain indemnifications from USM and (iv) review of attorneys' letters with respect to such proceedings.

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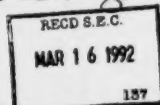
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FORM 10-Q



H
92-2274 11W

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549



QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended
January 31, 1992

Commission File Number:

0-19133 ~~0~~ 1-10960

FIRST CASH, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

75-2237-318
(IRS Employer Identification
Number)

600 Six Flags Drive
Suite 518
Arlington, Texas
(Address of principal
executive offices)

76011
(Zip Code)

(817) 633-7296
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _____ No X (1)

Number of shares of common stock outstanding as of March 11, 1992: 1,795,084

- (1) The Company is in the process of accumulating the necessary pro-forma information relating to recent acquisitions in order to complete the required Form 8-K and will be filed within the next 30 days.

Part I. Financial Information
Item 1. Financial Statements

FIRST CASH, INC.
CONDENSED BALANCE SHEETS

ASSETS

	January 31, <u>1992</u> (unaudited)	July 31, <u>1991</u>
Cash and cash equivalents	\$ 357,539	\$2,412,203
Officer notes receivable	48,750	47,150
Accounts and notes receivable, net	125,893	169,781
Service charges receivable	301,331	121,566
Loans	1,765,237	641,888
Inventories	1,758,456	946,897
Prepaid expenses and other current assets	<u>136,178</u>	<u>76,401</u>
Total current assets	4,493,384	4,415,886
Property and equipment, net	2,509,010	1,570,253
Intangible assets, net of accumulated amortization of \$6,410 as of January 31, 1992	<u>2,420,182</u>	<u>413,527</u>
Other noncurrent assets	<u>40,671</u>	<u>17,816</u>
	<u>\$9,463,247</u>	<u>\$6,417,482</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	January 31, 1992 (unaudited)	July 31, 1991
Revolving line of credit	\$2,295,000	\$ -
Current portion of long-term debt payable to a related party	12,932	12,932
Current portion of long-term debt	550,281	426,281
Accounts payable	38,033	37,608
Accrued expenses	149,084	88,622
Income taxes payable	119,804	35,318
Total current liabilities	3,164,944	600,821
Revolving line of credit	-	575,000
Long-term debt payable to a related party, net of current portion	223,592	227,071
	<u>3,388,536</u>	<u>1,402,892</u>
Shareholders' equity:		
10% cumulative preferred stock, \$1 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock; \$.01 par value; 20,000,000 shares authorized; 1,795,064 and 1,800,000 shares issued and outstanding, respectively	17,951	18,000
Additional paid-in capital	5,985,802	5,051,146
Retained earnings (deficit)	90,958	(52,558)
	<u>6,074,711</u>	<u>5,014,590</u>
	<u>\$9,463,247</u>	<u>\$6,417,482</u>

See the notes to condensed financial statements.

FIRST CASH, INC.
CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>January 31,</u> <u>1992</u>	<u>January 31,</u> <u>1991</u>	<u>January 31,</u> <u>1992</u>	<u>January 31,</u> <u>1991</u>
Revenues:				
Sales	\$ 845,620	\$342,813	\$1,344,704	\$542,515
Pawn service charges	429,630	155,094	696,065	303,220
Other income	28,543	10,331	58,400	22,729
	<u>1,303,793</u>	<u>508,238</u>	<u>2,099,169</u>	<u>868,464</u>
Cost of goods sold and expenses:				
Cost of goods sold	509,653	212,327	806,045	387,439
Operating expenses	486,459	178,009	778,162	355,264
Interest expense	17,029	22,422	30,890	42,644
Depreciation and amortization	26,734	15,000	47,460	30,000
Administrative expenses	103,672	45,758	208,812	78,518
	<u>1,143,547</u>	<u>473,516</u>	<u>1,871,369</u>	<u>893,865</u>
Income before income taxes	160,246	34,722	227,800	74,599
Provision for income taxes	59,291	10,136	84,286	21,782
Net income	<u>\$ 100,955</u>	<u>\$ 24,584</u>	<u>\$ 143,514</u>	<u>\$ 52,817</u>
Net income per common share	<u>\$.06</u>	<u>\$.04</u>	<u>\$.09</u>	<u>\$.06</u>
Weighted average common shares and common stock equivalents outstanding	<u>1,661,750</u>	<u>700,000</u>	<u>1,631,636</u>	<u>700,000</u>

See the notes to condensed financial statements.

FIRST CASH, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	<u>Six Months Ended</u>	
	<u>January 31, 1992</u>	<u>January 31, 1991</u>
Cash flows from operating activities:-		
Net income	\$ 143,514	\$ 52,817
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	47,460	30,000
Increase in operating assets	(511,940)	(257,998)
Increase in operating liabilities	<u>145,123</u>	<u>67,772</u>
Net cash flows used for operating activities	<u>(175,843)</u>	<u>(107,409)</u>
Cash flows from investing activities:		
Net increase in loans	(343,434)	(99,858)
Purchases of property and equipment	(547,807)	(20,313)
Acquisition of existing pawnshops	<u>(2,828,101)</u>	<u>-</u>
Net cash flows used for investing activities	<u>(3,719,342)</u>	<u>(120,171)</u>
Cash flows from financing activities:		
Increase in debt	1,840,521	279,718
Increase in prepaid public offering expenses	-	(155,334)
Increase in accrued public offering expenses	<u>-</u>	<u>50,000</u>
Net cash flows provided by financing activities	<u>1,840,521</u>	<u>174,384</u>
Decrease in cash and cash equivalents	(2,054,664)	(53,196)
Cash and cash equivalents at beginning of the period	2,412,203	82,485
Cash and cash equivalents at end of the period	<u>\$ 357,539</u>	<u>\$ 29,269</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$42,043</u>	<u>\$52,644</u>
Cash paid during the period for federal income taxes	<u>\$ -</u>	<u>\$35,926</u>
Supplemental disclosure of noncash investing and financing activities:		
During the period ending January 31, 1991 the Company issued common stock in connection with the acquisition of certain pawnshops	<u>\$916,607</u>	<u>\$ -</u>

See the notes to condensed financial statements.

FIRST CASH, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all disclosures and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows as presented herein. Operating results for the period ended January 31, 1992 are not necessarily indicative of the results that may be expected for the full fiscal year.

NOTE 2 - FEDERAL INCOME TAXES

The provision for federal income taxes in the accompanying condensed financial statements has been calculated based upon the Company's estimate of its anticipated effective tax rate for the full fiscal year.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company's revenues and earnings are primarily derived from interest earned on pawn loans ("loans") and the resale of unredeemed goods. Loans are made for 30 days with an automatic sixty-day extension period and collateralized by tangible personal property. Interest for the 30 day term is not reduced by prepayment. After the 30 day term, interest accrues daily until the loan is paid or the collateral is forfeited. Maximum allowable interest rates are set annually by the Texas Consumer Credit Commission and range from 12% to 240% on an annualized basis, depending on the amount of the loan. On loans not paid after the expiration of the automatic extension period, the underlying tangible personal property ("unredeemed goods") is forfeited and held for resale.

The Company had six pawnshops open the entire six months ended January 31, 1991. The Company began the six months ended January 31, 1992 with eight pawnshops. Three pawnshops were acquired in late October 1991 while one new store was opened in early November 1991. On January 31, 1992, the Company acquired three stores and opened one new store. Therefore, the Company had twelve stores in operation during the six months ended January 31, 1992 and sixteen stores as of January 31, 1992.

The Company has experienced significant increases in revenue in the second quarter of fiscal 1992 as compared to the second quarter of fiscal 1991 and in the six months ended January 31, 1992 as compared to the six months ended January 31, 1991. Such increases are primarily due to having six more pawnshops open during the six months ended January 31, 1992 than in the same period in fiscal 1991 and the maturity of existing pawnshops.

While the Company has incurred significant increases in revenues due to pawnshop openings, the Company has also incurred increases in operating expenses attributable to the new pawnshops, increases in administrative expenses attributable to establishing a management team and supporting corporate staff associated with the Company's growth.

Inventory turnover has not been stressed by the Company in previous periods because inventory was needed to stock new stores being opened by the Company. In the future, the Company expects to grow more by acquisitions than by opening new stores. Accordingly, the Company has begun to place greater emphasis on sales and will increase its use of wholesaling as necessary to move its inventory.

Six months ended January 31, 1992 compared to the six months ended January 31, 1991

Sales of goods for the six months ended January 31, 1992 were \$1,344,704 compared to \$642,515 for the same period in fiscal 1991, or an increase of \$702,189 or 109%. The increase is attributed to having six more pawnshops open in fiscal 1992 than in the fiscal 1991 and growth in existing pawnshops.

The cost of goods as a percentage of sales of goods declined from 60.3% for the six months ended January 31, 1991 to 60% for the same period in fiscal 1992 as the Company began realizing the effects of streamlining and centralizing the jewelry operations.

Pawn interest income was \$698,065 for the six months ended January 31, 1992 compared to \$303,220 for the same period in fiscal 1991, an increase of \$394,845. The increase in interest income resulted from growth in aggregate outstanding loan balances primarily due to the increase from six to twelve pawnshops and increases in average loan balances per pawnshop at the end of the respective periods.

Operating expenses, those expenses which are directly related to the operation of the Company's pawnshops, increased from \$355,264 for the six months ended January 31, 1991 compared to \$778,162 for the same period in fiscal 1992, an increase of \$422,898 or 119%, as a result of operating six additional pawnshops. Interest expense decreased by \$11,754 or 27.6%, as a result of the fact that the Company had increased cash available from its initial public offering to reduce short-term borrowings. Administrative expenses increased \$130,294 or 166% primarily as a result of increasing the corporate staff to support operations.

As a result of these factors net income increased by \$90,697 or 172% for the six month period ended January 31, 1992 compared to the same period in fiscal 1991.

Second quarter of fiscal 1992 compared to the second quarter of 1991

Sales of goods for the second quarter of fiscal 1992 were \$845,620 compared to \$342,813 in the second quarter of fiscal 1991, an increase of \$502,807 or 147%. The increase is the result of opening or acquisitions of six new pawnshops and growth in existing pawnshops during the quarter.

The cost of goods as a percentage of sales of goods decreased from 61.9% in the second quarter of fiscal 1991 to 60.2% in the second quarter of fiscal 1992 as the Company began realizing the effects of streamlining and centralizing the jewelry operations.

Pawn interest income was \$429,630 in the second quarter of fiscal 1992, compared to \$155,094 in the second quarter of fiscal 1991, an increase of \$274,536. The increase in interest income resulted from growth in aggregate outstanding loan balances primarily due to the increase from six to twelve Company pawnshops in operation and increases in average loan balances per pawnshop at the end of the respective periods.

Operating expenses, those expenses which are directly related to the operation of the Company's pawnshops, increased from \$178,009 in the second quarter of fiscal 1991 compared to \$486,459 in the second quarter of fiscal 1992, an increase of \$308,450 or 173%, as a result of six new pawnshops. Interest expense decreased by \$5,393 or 24%, from the second quarter of fiscal 1991 to the second quarter of fiscal 1992 as a result of the fact that the Company had increased cash available from its initial public offering to reduce short-term borrowings. Administrative expenses increased \$57,914 or 127% from the second quarter of fiscal 1991 to the second quarter of fiscal 1992 primarily as a result of adding corporate staff to support operations and expenses relating to the fact that the Company is now public. The increase in the provision for income taxes is a result of the increase in income from the second quarter of fiscal 1991 to the second quarter of fiscal 1992.

As a result of these factors net income increased by \$78,371 or 311%, from the second quarter of fiscal 1991 to the second quarter of fiscal 1992.

LIQUIDITY AND CAPITAL RESOURCES

The Company raised net proceeds of approximately \$3,581,000 after deduction of underwriting discounts and offering expenses from its initial public offering of 450,000 units (a unit consists of two shares of common stock and one common stock purchase warrant) which was completed in May 1991.

The line of credit is a revolving credit facility in the amount of \$3,500,000. As of January 31, 1992, the Company had borrowed \$2,295,000 under this line of credit to pay certain costs associated with the Company's acquisitions of pawnshops in fiscal 1992. All amounts outstanding under this credit facility mature on November 30, 1992.

The Company has experienced decreases in cash during the second quarter of fiscal 1992, the second quarter of fiscal 1991, the six months ended January 31, 1992 and the six months ended January 31, 1991. Such cash declines are due to the acquisition of pawnshops, increases in loans, opening costs and operating expenses incurred with the opening of new pawnshops and growth of the pawnshops. Cash is replaced as loans are repaid and sales of inventory and pawn interest income grow with the maturing of the pawnshops.

Management believes the line of credit, together with the proceeds from the public offering, will be sufficient to accommodate the Company's current level of operations for at least the next 12 months. On March 11, 1992, the Company announced that it had entered into a letter of intent to acquire the outstanding common stock of Regent Jewelry & Loan Co. ("Regent"). Regent has five pawnshops and the purchase will be made for a combination of cash and stock. This acquisition is contingent upon the obtaining of adequate financing for such a purchase.

Working capital at January 31, 1992 was \$1,328,440. Management believes that principal and interest payments on loans, sales of unredeemed goods, and the remaining net proceeds of the offering will be sufficient to maintain liquidity for the Company for at least the next 12 months.

PART II. OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders

- a. The annual meeting of shareholders of the Company was held on December 11, 1991.
- b. Directors elected to hold office for a term of one year and until their successors are duly elected and qualified are listed below:

John R. Payne
Phillip E. Powell
Billy R. Delp, Jr.
Robert J. Hudiburg
Tommy F. Abbott, M.D.
Michael A. Fisher
Joe R. Love
Louis E. Gibson

- c. Ratification of Price Waterhouse as the Company's independent certified public accountants for 1992.

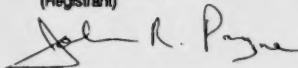
ITEM 5. Exhibits and Reports on Form 8-K.

- a. No exhibits are filed as part of the Form 10-Q.
- b. The Company did not file any reports on Form 8-K during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST CASH, INC.
(Registrant)



Date: March 13, 1992

JOHN R. PAYNE
John R. Payne
Chairman of the Board and
Chief Executive Officer
(Principal Financial and Duty
Authorized Officer of the
Registrant)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

I
92-2274QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended January 31, 1992

Commission File No. 0-8862

First Hartford Corporation(Exact name of registrant as
specified in its charter)Maine

(State of Incorporation)

01-0185800

(I.R.S. Employer
Identification No.)685 Parker Street, Manchester, Connecticut

(Address of principal executive offices)

06040

(Zip Code)

(203) 646-6555

(Registrant's telephone number, including area code)

At January 31, 1992 the registrant has authorized 6,000,000 shares of \$1 par value common stock of which 3,089,985 shares were outstanding.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES ☐NO ☒BEST COPY
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FIRST HARTFORD CORPORATION

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Consolidated Statements of Cash Flows Nine Months Ended January 31, 1992	4 & 5
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PART I - FINANCIAL INFORMATION
FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>	January 31, 1992 (Unaudited)	April 30, 1991 (Unaudited)
Real estate and equipment:		
Developed properties (Net of \$2,890,000 write down to Estimated Market Values)	\$27,845,507	\$21,991,335
Buildings under capital leases	3,992,266	3,992,266
Equipment and leasehold improvements	<u>450,334</u> 32,288,107	<u>448,691</u> 26,432,292
Less accumulated depreciation and amortization	<u>4,429,697</u> 27,958,410	<u>3,833,808</u> 22,598,494
Properties under construction and investment in undeveloped properties (Net of \$1,000,000 write down to Estimated Value)	<u>2,211,984</u> \$30,070,392	<u>7,650,056</u> \$30,248,540
Cash	30,577	4,557
Accounts receivable, less allowance for doubtful accounts	176,968	211,582
Deposits, escrows, and prepaid and deferred expenses	790,540	1,967,304
Due from related parties and affiliates, and investment in affiliated partnership	<u>1,698,193</u> \$32,706,562	<u>1,705,376</u> \$34,037,359

The accompanying notes are an integral part
of these financial statements.

PART I - FINANCIAL INFORMATION
FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	January 31, 1992 (Unaudited)	April 30, 1991 (Unaudited)
Liabilities:		
Construction loans, mortgages, notes payable and capital lease obligations:		
Construction loans payable	\$ 5,395,925	\$ 6,909,649
Mortgages payable	23,255,062	23,257,957
Notes payable:		
Officer	1,266,011	1,291,011
Other	1,154,779	1,349,650
Obligations under capital leases	<u>3,695,399</u>	<u>3,490,977</u>
	35,517,777	36,196,959
Accounts payable and cash overdrafts	4,790,003	4,941,065
Accrued Liabilities	8,289,832	7,210,925
Due to related parties and affiliated partnerships	7,222,227	5,562,240
Deferred income	25,539	511,157
	<u>\$55,844,377</u>	<u>\$55,521,637</u>
Shareholders' equity (deficiency):		
Common stock, \$1 par; authorized 6,000,000 shares; issued 3,322,213 shares	\$ 3,322,213	\$ 3,322,213
Capital in excess of par	4,857,745	4,857,745
Deficit	(29,249,649)	(27,595,912)
	<u>(21,069,691)</u>	<u>(19,415,954)</u>
Less 232,229 shares of common stock held in treasury, at cost	2,068,124	2,068,124
	<u>(23,137,815)</u>	<u>(21,484,078)</u>
	<u>\$32,706,562</u>	<u>\$34,037,359</u>

The accompanying notes are an integral part
of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Nine Months Ended		Three Months Ended	
	January 31, 1992	January 31, 1991	January 31, 1992	January 31, 1991
REVENUES, INCLUDING RELATED PARTY RESPECTIVELY:				
Construction	\$ 363,304		\$ 53,610	
Rental	3,134,994	\$ 3,224,288	1,150,294	\$ 914,809
Other	727,872	1,455,313	342,902	309,449
Sale of real estate	972,196	22,995,000	931,101	
	<u>5,198,366</u>	<u>27,674,601</u>	<u>2,477,911</u>	<u>1,228,258</u>
COSTS AND EXPENSES:				
Construction	\$ 311,270	\$	\$ 39,324	\$
Operating, selling, general and administrative	2,246,761	2,629,246	655,374	659,082
Interest	2,642,479	3,492,843	1,017,532	1,100,757
Depreciation and amortization	619,467	1,013,315	199,024	194,026
Real estate taxes	389,003	436,859	129,704	122,919
Cost of sales, real estate	<u>640,723</u>	<u>20,905,966</u>	<u>599,628</u>	<u>653</u>
	6,852,103	28,478,129	2,640,586	2,081,237
NET INCOME (LOSS)	<u>(\$ 1,653,737)</u>	<u>(\$ 903,528)</u>	<u>(\$ 162,675)</u>	<u>(\$ 852,979)</u>
INCOME (LOSS) PER SHARE	<u>(\$.54)</u>	<u>(\$.26)</u>	<u>(\$.06)</u>	<u>(\$.29)</u>
Weighted Average Number of Common Shares Outstanding	<u>3,089,995</u>	<u>3,089,985</u>	<u>3,089,985</u>	<u>3,089,995</u>

The accompanying notes are an integral part
of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:	9 Months Ended		3 Months Ended	
	<u>01/31/92</u>	<u>01/31/91</u>	<u>01/31/92</u>	<u>01/31/91</u>
Net Profit (Loss)	(\$1,653,737)	(\$ 803,529)	(\$ 152,675)	(\$ 952,979)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	595,989	654,491	198,537	196,492
Amortization	23,978	358,824	489	11,534
(Gain) or Loss on sale of real estate	164,983	(2,089,134)	164,983	453
Changes in assets and liabilities: Increase (Decrease) in:				
Accounts and Notes Receivable	74,714	(236,859)	151,383	25,373
Deposits, escrows, prepaid and deferred expenses	1,062,786	61,104	(16,941)	(37,901)
Accrued liabilities	1,078,807	(80,772)	211,585	255,733
Deferred income	(485,619)	121,597	(579,403)	(19,215)
Write Off Deferred Expense	(1,109,198)			
Decrease in:				
Accounts payable and cash overdrafts	(151,043)	(1,060,465)	4,927	(515,179)
Net cash used in operating activities	<u>(\$ 398,440)</u>	<u>(\$3,074,742)</u>	<u>(\$ 27,017)</u>	<u>(\$1,044,690)</u>
Cash flows from investing activities:				
Purchases of equipment and leasehold improvements	(1,642)	489,441	(1,642)	471,470
Proceeds from sale of Real Estate	966,029	22,574,410	925,934	—
Payments for:				
Additions to properties	(437,914)	(3,796,195)	15,994	(988,990)
Net cash used in investing activities:	<u>\$ 526,472</u>	<u>\$19,267,666</u>	<u>\$ 940,286</u>	<u>(517,520)</u>

The accompanying notes are an integral part
of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	9 Months Ended		3 Months Ended	
	<u>01/31/92</u>	<u>01/31/91</u>	<u>01/31/92</u>	<u>01/31/91</u>
Cash flows from operating activities:				
Proceeds from:				
Construction loans payable	\$ 441,056	\$ 2,758,591	\$ 9,999	\$ 929,722
Notes Payable		158,752		115,195
Principal payments on:				
Construction loans payable	(854,778)	(100,000)	(954,778)	(855)
Mortgages Payable	(2,795)	(19,300,459)	(958)	(15,058)
Notes payable	(209,271)	(165,981)	(75,757)	(16,175)
Obligations under capital lease	(53,404)	(47,298)	(18,516)	
Advances from related parties and affiliated partnerships	<u>577,190</u>	<u>504,312</u>	<u>52,731</u>	<u>550,244</u>
Net cash provided by financing activities	<u>(\$ 102,012)</u>	<u>(16,192,073)</u>	<u>(\$ 987,279)</u>	<u>\$1,564,073</u>
Net increase (decrease) in cash and cash equivalents	25,020	951	25,990	1,953
Cash and Cash equivalents, beginning of period	<u>4,557</u>	<u>3,975</u>	<u>4,587</u>	<u>2,963</u>
Cash and cash equivalents, end of period	<u>\$ 30,577</u>	<u>\$ 4,826</u>	<u>\$ 30,577</u>	<u>\$ 4,826</u>

The accompanying notes are an integral part
of these financial statements.

FIRST PARTFORD CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

(Unaudited)

1. Commitment and contingencies:

- A. In August 1985, Somersville Corporation, a subsidiary of and assignee of the Company, purchased all of the capital stock of Meriden Trading Company from Insilco Corporation. At the time of the stock purchase, Meriden Trading Company owned real property located at 550 Research Parkway in Meriden, Connecticut. After the stock purchase, Sierra Capital Realty Advisors, Inc. agreed to buy the real property for approximately \$21,300,000, but the sale was not consummated because of the discovery during a preliminary environmental review in April 1988 of certain hazardous materials on the site. The property was later sold to United States Steel and Carnegie Pension Fund, Inc., for \$19,500,000 on April 29, 1988. As part of that transaction, the Company assumed the obligation to bring the site into conformity with applicable environmental standards. Litigation was commenced on September 2, 1988, against Insilco Corporation as the party responsible for the contamination, seeking damages for lost profits and clean-up costs on theories of breach of warranty, breach of agreement to indemnify, and other statutory and common law causes of action.

During 1988, the Company did not anticipate incurring any material costs associated with the cleanup of the property, but based on a further environmental review and cost estimation performed during 1989 and the uncertainty of the pending litigation against Insilco Corporation, (which has filed Chapter 11 under the Bankruptcy Code on January 13, 1991), the Company has revised its estimates and accrued \$3,000,000 in 1989. This change in its estimate resulted in a \$3,000,000 and \$.97 per share increase in net loss for 1989.

There is currently an unsigned settlement in which the Company will be excused from participating in the clean up and a portion of our legal fees will be paid. If this agreement is concluded, the Company will look at a \$3,000,000 profit in 1992.

- B. The Company is currently a defendant in legal proceedings in Maine involving the violation of federal environmental laws regarding a property it formerly owned. The Company that was cited is suing several different entities. We are not defending against these cases at this time.
- C. Concurrent with freezing the pension plan, the Company sought a funding waiver from the Internal Revenue Service (IRS) regarding past failures to make required pension plan contributions. The IRS granted the waiver conditioned on the Company taking certain actions by the date specified in the waiver letter. Three of the conditions were met by the specified date. The fourth condition requires the Company to provide security to the Pension Benefit Guaranty Corporation for the waived amounts. The Company has currently submitted certain assets to be used as security. Should this security or other security provided by the Company be unsatisfactory to the Pension Benefit Guaranty Corporation, the Company will have a material exposure for excise taxes resulting from past failures to meet the minimum

The accompanying notes are an integral part
of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

(Unaudited)

funding standards under the Internal Revenue Code. The amount of these taxes is indeterminable at this time.

D. During May of 1990 a default was declared on three mortgages. Two of those properties (Briar Knoll apartments and Hilltop apartments) are 100% owned by a subsidiary of the Company. The other property (Ribbon Mill Apartments) is managed by a subsidiary of the Company. Another subsidiary of the Company is the General Partner and owns a small residual interest. The Company is currently trying to refinance these properties by a refunding bond issue. The outcome is unknown. A negative financial outcome will accompany either result. Taking this into consideration, a four million dollar write down was taken.

2. Subsequent events:

As a result of the alleged defaults listed in 1.7 above, an audit by HUD of our operating procedures was undertaken. HUD claims we are in violation of the Regulatory Agreements. Among their claims is one of unauthorized borrowing from the operation accounts. We are defending our position vigorously as a ruling in favor of HUD could result in a loss of our Management Contracts.

3. Going concern:

The Company has suffered recurring cash flow deficiencies during the past few years and currently has a substantial deficit. The Company is in default of its loan agreements with several mortgage and construction loan lenders and consequently, a significant portion of its construction loans and mortgages are due on demand. These conditions raise substantial doubt about the Company's ability to continue as a going concern and meet its obligations as they become due.

The Company's construction activity is currently only in the planning stages. If construction activity does not increase, the Company will not have properties to either sell or lease to tenants. Management is attempting to locate properties to develop in the future. However, because of the Company's financial position and the economic factors of the real estate industry (including the current banking crises), availability of funds is limited. Management is continually assessing current economic factors and revising its plans to increase the Company's liquidity in an attempt to meet its obligations.

The accompanying notes are an integral part
of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

(Unaudited)

ITEM 1. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS.

The Company has suffered recurring cash flow deficiencies during past few years and has a substantial deficit currently. Because of cash flow deficiencies, the Company lost a property through foreclosure in October 1989 and foreclosure proceedings were instituted by another mortgage lender during 1989. In addition, the Company is in default of its loan agreements with several mortgage and construction lenders and, consequently, a significant portion of its construction loans and mortgages are due on demand. These conditions raise substantial doubt about the Company's ability to continue as a going concern and meet its obligations as they become due.

The Company's construction activity has decreased in 1990 and 1991 and continues to decline in 1992. If construction activity does not increase, the Company will not have properties to either sell or lease to tenants. Management is attempting to locate properties to develop in the future. However, because of the Company's financial position and the economic factors of the real estate industry, availability of funds is limited. Management is continually assessing current economic factors and revising its plans to increase the Company's liquidity in an attempt to meet its obligations.

The accompanying notes are an integral part of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

(Unaudited)

FORM 10-Q

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
FOR THE NINE MONTHS ENDED JANUARY 31, 1992

PART II

ITEM 2. Legal Proceedings

All material legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property has become the subject, have been previously reported by the Company in Form 10-K for the fiscal year ended April 30, 1991.

The accompanying notes are an integral part
of these financial statements.

FIRST HARTFORD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

(Unaudited)

FORM 10-Q

FIRST HARTFORD CORPORATION AND SUBSIDIARIES

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST HARTFORD CORPORATION

Stuart Greenwald
Stuart Greenwald, Treasurer

Date: 4/12/92

The accompanying notes are an integral part
of these financial statements.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

MAR 16 1992

For the quarter ended January 31, 1992

Commission File number: 0-8589

FLAME INDUSTRIES, INC.

(Exact name of registrant as specified in charter)

MINNESOTA

(State or other jurisdiction of
incorporation or organization)

41-0825622

(I.R.S. Employer
Identification Number)

7317 West Lake Street, Minneapolis, Minnesota
(Address of principal executive offices)

55426
(Zip Code)

Registrant's telephone number, including area code: (612) 929-7815

Not Applicable

Former name, former address, and former fiscal year, if changed since last report.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No

At February 28, 1992, 1,161,373 shares of Common Stock and 100,000 shares of Class A Convertible Preferred Stock were outstanding.

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FLAME INDUSTRIES, INC. AND SUBSIDIARY

PART I

Item 1.

The condensed financial statements included herein have been prepared by Flame Industries, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended April 30, 1991.

The condensed financial statements included herein, which are unaudited, include, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position and results of operations of the Company for the periods presented.

**FLAME INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

	ASSETS	January 31, 1992	April 30, 1991
Current assets:			
Cash		247	38
Total current assets		247	38
Total assets		<u>\$ 247</u>	<u>\$ 38</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:			
Accounts Payable	\$ 2,509	\$ 5,250	
Due to affiliate	274,404	240,405	
Accrued expenses	<u>73,918</u>	<u>47,290</u>	
Total current liabilities	350,832	292,945	
Note payable	<u>26,240</u>	<u>26,240</u>	
Stockholders' deficit:			
Convertible preferred stock, \$.10 par value; authorized 1,000,000 shares, issued 100,000 shares at January 31, 1992 and April 30, 1991	10,000	10,000	
Common stock, \$.10 par value; authorized 5,000,000 shares, issued 1,161,373 shares at January 31, 1992 and April 30, 1991	116,137	116,137	
Deficit in excess of par value	(26,137)	(26,137)	
Accumulated deficit, since May 29, 1985	<u>(476,815)</u>	<u>(419,147)</u>	
Total stockholders' deficit	<u>(376,815)</u>	<u>(319,147)</u>	
Total liabilities and stockholders' deficit	<u>\$ 247</u>	<u>\$ 38</u>	

The accompanying notes are an integral part of these consolidated financial statements.

FLAME INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF NET LOSS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31		January 31	
	1992	1991	1992	1991
Net Sales	\$ --	\$ --	\$ --	\$ --
Cost and expenses:				
Selling, general and administrative	8,952	9,386	31,340	33,452
Interest	<u>8,776</u>	<u>--</u>	<u>26,328</u>	<u>15,264</u>
	<u>17,728</u>	<u>9,386</u>	<u>57,668</u>	<u>48,716</u>
Loss from operations	<u>(17,728)</u>	<u>(9,386)</u>	<u>(57,668)</u>	<u>(48,716)</u>
Net Loss	<u>\$ (17,728)</u>	<u>\$ (9,386)</u>	<u>\$ (57,668)</u>	<u>\$ (48,716)</u>
Net loss per common share	<u>\$ (.01)</u>	<u>\$ (.00)</u>	<u>\$ (.03)</u>	<u>\$ (.02)</u>
Weighted average number of common shares outstanding	<u>1,973,325</u>	<u>1,973,325</u>	<u>1,973,325</u>	<u>1,973,325</u>

The accompanying notes are an integral part of these consolidated financial statements.

FLAME INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended January 31,
(Unaudited)

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net loss	\$ (57,668)	\$ (48,716)
Changes in current liabilities:		
Accounts payable	(2,750)	(13)
Due to affiliate	33,999	33,207
Accrued expense	<u>26,628</u>	<u>14,314</u>
Net cash provided by (used in) operating activities	<u>209</u>	<u>(1,208)</u>
Net increase (decrease) in cash	209	(1,208)
Cash balance at beginning of year	<u>28</u>	<u>18,359</u>
Cash balance at end of quarter	<u>\$ 247</u>	<u>\$ 17,151</u>

The accompanying notes are an integral part of these consolidated financial statements.

FLAMET INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 SUMMARY OF SIGNIFICANT POLICIES

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned DISC subsidiary. In consolidation, all significant intercompany accounts and transactions are eliminated.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Nine Months Ended January 31, 1992 Compared to Nine Months Ended January 31, 1991. The loss of \$57,668 for the first three quarters of fiscal 1992 is entirely attributable to administrative expenses incurred to maintain the Company. The future viability and profitability of the Company is contingent upon the Company's ability to consummate acquisitions in the future.

PART II

No responses to Items 1 thru 5 are furnished since in each case the appropriate response would be either not applicable or none.

Item 6. Exhibits and Reports on Form 8-K

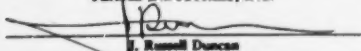
- (a) Exhibits: None
- (b) Reports on Form 8-K: There were no reports on Form 8-K filed for the nine months ended January 31, 1992.

FLAME INDUSTRIES, INC. AND SUBSIDIARY

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this interim report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLAME INDUSTRIES, INC.

A handwritten signature in dark ink, appearing to read "J. Russell Duncan", is written over a horizontal line.

J. Russell Duncan
Chairman of the Board, and
Treasurer (Chief Executive and
Principal Financial and
Accounting Officer)

Dated: 3-12-1992



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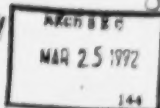
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FORM 10-Q

922274

SECURITIES AND EXCHANGE COMMISSION



Washington, D.C. 20549

(Mark One)

☒ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended January 31, 1992

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition period from _____ to _____

Commission file number ~~13-30000~~

0-178 D

F. M. G.

GRUDGE MUSIC GROUP, INC.

N.L.

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

13-3305264
(IRS Employer I.D. No.)

185 Franklin Street
New York, NY 10013
(212) 226-9688

(Address of Principal Executive Offices
and Principal Place of Business and Telephone No.)

37 North Broadway
Nyack, New York 10960
(914) 358-7711

(Former name, former address and for
year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

COMMON STOCK, \$.0001 PAR VALUE-- 9,979,958 SHARES AS OF
January 31, 1992

GRUDGE MUSIC GROUP, INC.

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Condensed Balance Sheet January 31, 1992 and October 31, 1991	3-4
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Statements of Cash Flows Three months ended January 31, 1992 and 1991	6
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PART 1 - FINANCIAL INFORMATION

GRUDGE MUSIC GROUP, INC.

CONDENSED BALANCE SHEET

ASSETS

	<u>31-Jan-92</u>	<u>31-Oct-91</u>
CURRENT ASSETS		
Cash in bank	\$ 38,853	\$ 348,312
Accounts Receivable (Note 1)	18,698	0
Inventory	<u>226,105</u>	<u>143,218</u>
TOTAL CURRENT ASSETS	\$ 283,656	\$ 491,530
OTHER ASSETS		
Debentures Receivable	124,000	0
Land	274,900	0
Master Tapes - net	490,317	518,627
Fixed Assets - net	1,136,213	7,684
Intangible Assets - net	845,954	
Deferred Convertible Debenture Costs (Note 3)	97,167	60,670
Deposits	<u>7,061</u>	<u>4,019</u>
TOTAL ASSETS	\$ <u>3,259,268</u>	\$ <u>1,082,530</u>

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.

LIABILITIES

	<u>31-Jan-92</u>	<u>31-Oct-91</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 443,836	\$ 315,702
Interest Payable	21,733	0
Taxes Payable	29,336	18,421
Convertible Debentures Payable (Note 3)	<u>1,047,500</u>	<u>675,500</u>
TOTAL LIABILITIES	\$ <u>1,542,405</u>	\$ <u>1,009,623</u>
LONG-TERM DEBT		
Notes Payable (Note 2)	\$ <u>1,900,000</u>	\$ <u>0</u>
STOCKHOLDERS' EQUITY		
Capital Stock, Common	\$ 998	\$ 998
Additional Paid-in Capital	2,464,578	2,464,578
Contributed Capital		
Retained Earnings (deficit)	<u>(2,648,713)</u>	<u>(2,392,669)</u>
TOTAL STOCKHOLDERS' EQUITY	\$ <u>(183,137)</u>	\$ <u>72,907</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>3,259,268</u>	\$ <u>1,082,530</u>

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.

CONDENSED STATEMENT OF INCOME
For the Three months ended January 31, 1992 and 1991

	<u>31-Jan-92</u>	<u>31-Jan-91</u>
Revenue (Note 1)	\$ 27,722	\$ (11,782)
Other Income		
Total Revenues	<u>\$ 27,722</u>	<u>\$ (11,782)</u>
Selling, General and Administrative Expenses	\$ 228,903	\$ 53,531
Depreciation & Amortization	<u>54,863</u>	<u>31,440</u>
	<u>\$ 283,766</u>	<u>\$ 84,971</u>
Net Income (loss)-Before Non-recurring items	\$ (256,044)	\$ (96,753)
Inventory Write-down	0	100,907
Debenture Costs	<u>0</u>	<u>18,009</u>
Net Income (loss) - Before Income Taxes	\$ (256,044)	\$ (215,669)
Income Taxes		
NET INCOME (LOSS)	<u>\$ (256,044)</u>	<u>\$ (215,669)</u>
Per share amounts		
Primary Net Income	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months ended January 31, 1992 and 1991

	<u>31-Jan-92</u>	<u>31-Jan-91</u>
Cash flows from:		
OPERATING ACTIVITIES		
Net Income (loss)	\$ (256,044)	\$ (215,669)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation & Amortization	54,863	31,440
Interest accrual converted to Equity (Note 9)		720
(Increase) Decrease in:		
Receivables	(18,698)	11,782
Inventories	(82,887)	112,124
Subscriptions Receivable	(124,000)	
Other Assets	(3,042)	6,000
Deferred Debenture Costs	(36,497)	18,009
Increase (decrease) in:		
Accounts Payables	\$ 160,782	\$ 7,044
Net Cash provided (used) by operating activities	\$ (305,523)	\$ (28,550)
INVESTING ACTIVITIES:		
Master tapes expenditures	\$ (2,500)	\$
Land	(274,900)	
Fixed Asset Acquisition	(1,990,536)	
Cash used in investing activities	\$ (2,275,936)	\$ 0
FINANCING ACTIVITIES:		
Issuance of Mortgage Notes Payable	\$ 1,700,000	\$
Issuance of Common Stock		
Proceeds from borrowings from Officers'		57,570
Proceeds from issuance of Convertible Debentures	372,000	
Note Payable - Shareholder (Note 2)	200,000	
Cash provided by financing activities	\$ 2,272,000	\$ 57,570
Net increase (decrease) in cash and cash activities	\$ (309,459)	\$ 29,020
Cash and cash equivalents at beginning of the quarter	348,312	(27,991)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 38,853	\$ 1,029

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC.
CONDENSED STATEMENTS OF CASH FLOWS
SUPPLEMENTAL INFORMATION

For the Three Months ended January 31, 1992 and 1991

SUPPLEMENTAL SCHEDULE OF NON CASH FINANCING ACTIVITIES:

	Three Months Ended	
	1/31/92	1/31/91
Conversion of Debt to Common Stock (Note 9)	\$0	\$123,290

The accompanying notes are an integral part of these condensed financial statements.

GRUDGE MUSIC GROUP, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS

INVENTORY

The inventory is stated at lower of cost or market.

MASTER TAPES AND ARTIST ADVANCES

Master tapes and artist advances are deferred costs which are amortized to the net revenue that is expected to be realized. The Master tapes and artist advances that subsequently appear not to be fully recoverable from future sales and where a cost is expected to occur, are written-off immediately. The determination to capitalize these costs is based upon past performance and current popularity of the record master. The amortization expense for the fiscal year ending October 31, 1990, was 14.3 % of the total cost, 57.2 % will be amortized by October 31, 1992, and 60 % of the total cost will be amortized during the year ending October 31, 1993. Amortization aggregating \$ 341,555 has been provided as of October 31, 1991 and \$ 372,365 as of January 31, 1992.

EQUIPMENT

Equipment is carried net of accumulated depreciation which is calculated on the straight line method. The estimated useful life for recording equipment and office equipment is five years.

INTANGIBLES

The costs of Intangible assets (Goodwill, Contracts, and Water Rights) are amortized over the expected useful life of the assets.

EARNINGS PER SHARE

Earnings per share computations reflect the effect of the additional issuance of shares in connection with the public offering. Prior period calculations have been restated.

GRUDGE MUSIC GROUP, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Grudge Music Group Inc. (the "Company") was incorporated on October 9, 1985, and commenced operations in July, 1986. It has elected a fiscal year end of October 31, with an initial year end of October 31, 1986. The Company engages in distribution and recording of records and tapes under the label of Pinnacle and Grudge Records. It is the Company's intent wherever possible to acquire music publishing rights.

During the quarter ended January 31, 1992, the Company purchased all of the assets of Echo Spring Water Co., Inc. and H.S.F. Inc. and commenced daily operations of these Companies. These Companies produce and market natural spring water throughout New York State. These Companies own the land, water rights, and production facilities and are not dependent on other Companies for their products or marketing facilities.

RECOGNITION OF SALES REVENUE

Revenue from sales of records are recognized based upon shipments of the Company's recording products by an independent distributor to retailers, net of actual or estimated returns. The Company's retailers have the right to return merchandise purchased. Under Financial Accounting Standards Board Statement No. 48, certain provisions are required for the Company to recognize sales where the right of return exists; the Company's sales policy satisfies this accounting pronouncement.

Revenues from water sales are recognized based upon actual shipments to customers on a final sales basis.

ACCOUNTS RECEIVABLE/SALES RETURNS

The Company's recording products are subject to return by retailers to the Company's independent distributor if not sold to the public. the Company's receivables are guaranteed by this distributor net of actual returns.

The Company's sales of water products are not subject to return by it's customers. Bottle deposits received are recorded as a current liability.

GRUDGE MUSIC GROUP, INC
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 2 - NOTES PAYABLE

The Company entered into mortgage notes payable in connection with certain Asset acquisitions (Note 1). These mortgage notes in the Amount of \$ 200,000 and \$ 1,500,000 carry interest at the rate of eight per cent (8 %) per annum and are due on November 6, 1993 and December 6, 1993 respectively. These notes require quarterly payments of interest only.

In addition to cash and mortgage notes, the purchase agreement for Echo Spring Water Co., Inc. called for the issuance of 2,000,000 shares of the common stock of the Company. To facilitate the completion of the purchase details, a major stockholder loaned these 2,000,000 shares to the Company from his personal holdings. This loan is secured by a non-interest bearing note payable in the amount of \$200,000. It is the understanding of the parties that 2,000,000 new shares of the Company will be issued in replacement.

NOTE 3 - DEBENTURE PAYABLE

The Company has sold Five (5) year 10 % Convertible Debentures in a private offering secured by the Company's Trade Accounts Receivable. These debenture, in the amount of \$ 422,500 and \$ 750,000 are convertible, at the option of the holder, into eight (8) common shares and ten (10) common shares, respectively, for each (\$1) of principal.

NOTE 4 - INCOME TAXES

The Company, for tax purposes, has elected to be taxed on a cash basis. This election results in the Company's remitting taxes to the Internal Revenue Service subsequent to these taxes being incurred for financial statement purposes. Under the Tax Reform Act of 1986, all companies were required to file their tax returns on the accrual basis. An exemption to this rule was made for entities that have less the \$ 5 million in gross receipts for the three preceding years. If the Company, in the future, surpasses this exemption, it will be required to change from the cash basis method of tax preparation to the accrual method. The Company has operating loss carryforwards, on a cash basis, available for future offset against taxable income of:

\$ 151,000 Expiring in 2003
\$ 655,000 Expiring in 2004
\$ 943,600 Expiring in 2005

GRUDGE MUSIC GROUP, INC

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 6 - LEASE COMMITMENTS

During the quarter the Company entered into a lease agreement for administrative office space in Utica, New York. This lease is for a term of three (3) years and calls for a monthly rental of \$ 1,000 including utilities.

NOTE 7 - DIVIDENDS

The Company presently does not anticipate paying any dividends in the foreseeable future.

NOTE 8 - DISTRIBUTION AGREEMENT

The Company on November 1, 1988, entered into a long-term distribution agreement for its Grudge Records label with one of the six major music distributors in the United States. Under the arrangement, the Company will be utilizing the sales force, manufacturing facilities, and advertising arrangements of this distributor. Payment of accounts receivable is guaranteed under this agreement.

GRUDGE MUSIC GROUP, INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**THREE MONTHS ENDED JANUARY 31, 1992 COMPARED WITH THE THREE
MONTHS ENDED JANUARY 31, 1991:**

The Company posted a net loss of \$ 256,044 or \$.03 per share versus a loss of \$ 215,609 or \$.02 per share a year earlier. Revenue increased \$ 39,504 from the previous year.

Selling, general, and administrative expenses increased from \$ 53,531 to \$ 228,903 or more than 400 %. This increase is directly attributable to the Company's entrance into the bottled water business. The Company incurred initial start up expenses as well as a sharp increase in hiring factory and office personnel and the opening of an administrative office in Utica, New York.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's primary sources of liquidity have been from it's initial public offering, cash generated from sales, issuance of convertible debentures, and borrowings from it's officers'.

At January 31, 1992, the Company had \$ 38,853 in cash and a negative net worth of \$ 183,137. The Company is in the process of completing a private offering of Convertible debentures in the maximum amount of \$ 750,000. As of the signing date of the form 10-Q, this offering has been completed. Additionally, the Company has a proxy pending with the Securities and Exchange Commission. One of the proposals to be voted upon by the Company's shareholders is to increase Common Stock authorization to 50,000,000 shares. This increase would allow the Company the flexibility to convert outstanding debenture obligations to equity. There can be no assurance that the Company will be successful in converting these debentures into equity or that additional funds will not be needed in the future.

Additionally, the Company is readying a release with Michael Winslow of "Police Academy" fame and is working on it's current catalogue, including having been asked to propose music for a motion picture soundtrack. Management can make no assurances as to the success or final interest in these projects.

GRUDGE MUSIC GROUP, INC.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various litigation's involving payment for services rendered. These costs are already included in the Accounts Payable section of the balance sheet and no other provisions need be made.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) None.

b) Reports on Form 8-K

- 1) November 6, 1991
- 2) December 12, 1991

GRUDGE MUSIC GROUP, INC.

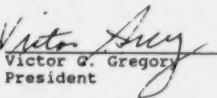
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

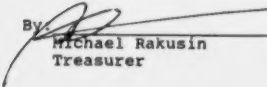
Dated: March 24, 1992

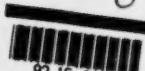
COMPASS DISTRIBUTING INC.
(Registrant)

By


Victor G. Gregory
President

By


Michael Rakusin
Treasurer



92 15 6867

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities and Exchange Act of 1934

RECD S.E.C.

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For Quarter Ended March 31, 1992

Commission File Number 2-23700 0-5071

HUGHES TEXAS PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State of other jurisdiction of
incorporation or organization)

64-6015469

(IRS Federal identifica-
tion number)

702 West Pine Street, Hattiesburg, MS 39401

(Address of Principal Executive Office)

(Zip Code)

PROCESSED BY

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(Registrant's telephone number, including area code)

(Former name, former address and former
changed
since last report)

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Indicate by check mark whether the registrant (1) has filed
all reports required to be filed by Section 13 or 15(d) of
the Securities Act of 1934 during the preceding 12 months (or
for such shorter period that the registrant was required to
file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X No

Number of shares outstanding of each class of stock as of
March 31, 1992:

Common 5,250,000

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The following comparative financial statements are for the Registrant, Hughes Texas Petroleum Corporation:.

	<u>Page(s)</u>
Comparative Balance Sheet, March 31, 1992 and December 31, 1991	3 & 4
Condensed Comparative Statement of Income and Expense, Three Months	5
Comparative Statement of Changes in Working Capital, Three Months	6
Comparative Statement of Change in Financial Position, Three Months	7

HUGHES TEXAS PETROLEUM CORPORATION

Comparative Balance Sheet March 31, 1992 and December 31, 1991

	March 31 1992 unaudited	December 31 1991
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash in Bank, Checking	23,947	15,871
Accounts Receivable	26,405	25,922
Due from Joint Operators	17,902	9,291
Prepaid Expense	<u>4,749</u>	<u>5,878</u>
Total Current Assets	<u>73,003</u>	<u>56,962</u>
<u>Producing Oil & Gas Properties</u>		
Well Equipment	574,068	543,941
Less: Accumulated Depreciation	(415,925)	(401,535)
Oil & Gas Leases	375,872	375,872
Less: Accumulated Depletion	<u>(85,178)</u>	<u>(80,678)</u>
Total Producing Oil and Gas Properties	<u>448,837</u>	<u>437,600</u>
<u>Fixed Assets</u>		
Furniture and Equipment	23,108	23,108
Less: Accumulated Depreciation	<u>(22,938)</u>	<u>(22,938)</u>
Total Fixed Assets	<u>170</u>	<u>170</u>
<u>Other Assets</u>		
Deposits	2,904	2,904
Due from Officers	<u>530,448</u>	<u>530,298</u>
Total Other Assets	<u>533,352</u>	<u>533,202</u>
TOTAL ASSETS	<u><u>1,055,362</u></u>	<u><u>1,027,934</u></u>

HUGHES TEXAS PETROLEUM CORPORATION

Comparative Balance Sheet March 31, 1992 and December 31, 1991

	March 31 1992	December 31 1991
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	229,375	214,441
Due to Joint Operators	8,585	6,602
Due to Officers		9,950
Taxes Payable - Other than		
Income	9,054	9,054
Notes Payable - Due within 12		
months	77,488	77,488
Mortgage Payable - Current		
Portion	<u>105,000</u>	<u>97,500</u>
Total Current Liabilities	<u>429,502</u>	<u>415,035</u>
<u>Other Liabilities</u>		
Related Interest	471,828	433,776
Accrued Expenses	62,675	55,269
Advance on Investment	<u>10,000</u>	
Total Other Liabilities	<u>544,503</u>	<u>489,045</u>
<u>Long Term Debt</u>		
Mortgage Note Payable	<u>178,776</u>	<u>194,003</u>
Total Liabilities	<u>1,152,781</u>	<u>1,098,083</u>
 Common Stock: 20,000,000 shares .01 par value authorized; 5,250,000 shares issued and outstanding •		
Additional Paid-in-Capital	52,500	52,500
Retained Earnings	1,202,790	1,202,790
	<u>(1,352,709)</u>	<u>(1,325,439)</u>
Total Stockholders' Equity	<u>(97,419)</u>	<u>(70,149)</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		
	<u>1,055,362</u>	<u>1,027,934</u>

HUGHES TEXAS PETROLEUM CORPORATION

Condensed Comparative
Statement of Income and Expense
Three Months Ended March 31, 1992 and 1991

<u>Explanation</u>	<u>March 31</u> <u>1992</u>	<u>March 31</u> <u>1991</u>
Gross Income	68,522	142,975
<u>Cost and Operating Expense</u>		
Production Cost	62,288	82,567
General & Administrative	25,852	46,958
Interest	<u>7,651</u>	<u>14,833</u>
Total Cost and Expense	<u>95,791</u>	<u>144,358</u>
Net Income (Loss) before Income Tax	<u>(27,269)</u>	<u>(1,383)</u>
Net Income (Loss) to Retained Earnings	<u>(27,269)</u>	<u>(1,383)</u>
Income (Loss) per share Rate	(.0519)	(.0263)

HUGHES TEXAS PETROLEUM CORPORATION

Comparative Statement
of
Changes in Working Capital
Three Months Ended March 31, 1992 and 1991

	March 31 <u>1992</u>	March 31 <u>1991</u>
<u>Explanation</u>		
<u>Current Assets - Increase (Decrease)</u>		
Cash	8,076	(3,733)
Accounts Receivable	9,094	1,420
Prepaid Expense	(1,129)	(4,600)
Total Current Assets		
Increase (Decrease)	<u>16,041</u>	<u>(6,913)</u>
<u>Current Liabilities - Increase (Decrease)</u>		
Accounts Payable	14,934	5,990
Due to Joint Operators	1,983	(59,237)
Taxes Payable - Other than Income		1,607
Notes Payable - Current Portion	7,500	909
Due to Officers	(9,950)	
Total Current Liabilities		
Increase (Decrease)	<u>14,467</u>	<u>(53,945)</u>
Working Capital		
Increase (Decrease)	<u>1,574</u>	<u>47,032</u>

HUGHES TEXAS PETROLEUM CORPORATION
Comparative Statement of Change in
Financial Position
Three Months Ended March 31, 1992 and 1991

	March 31 1992	March 31 1991
<u>Explanation</u>		
<u>Source of Funds</u>		
From Operations		
Net Profit (Loss)	(27,269)	(1,383)
Charges not Requiring Current Funds		
Depreciation	14,390	14,390
Depletion	4,500	4,500
Increase in Other Liabilities	<u>55,458</u>	<u>89,662</u>
Total Funds Available	<u>47,079</u>	<u>107,169</u>
<u>Funds Applied</u>		
Increase in Producing Properties	30,128	1,748
Decrease in Liabilities -		
Long-Term	15,227	41,617
Increase in Other Assets	150	16,772
Increase in Working Capital	<u>1,574</u>	<u>47,032</u>
Total Funds Applied	<u>47,079</u>	<u>107,169</u>

HUGHES TEXAS PETROLEUM CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 1992

Note A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with general accepted accounting principles for interim financial information and with the instructions to Form 10-K and Rules 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operation results for the three month period ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ended December 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report of Form 10-K for the year ended December 31, 1991.

Note B.

Earnings (loss) per share for the three months ended March 31, 1992 was (.0519) as compared with (.0263) per share for the year ago quarter ended March 31, 1991.

Note C.

Income Taxes: No income taxes due.

Item 2. Management's Discussion and analysis of Financial Condition and Results of Operations

Operations for the calendar quarter ended March 31, 1992 resulted in a loss of (\$27,269) compared to the loss of (\$1383) for the same period 1991.

The following table is a comparative analysis of crude oil and natural gas sales and prices:

Quarter Ended	Gas MCF	Oil Bbls	Net Equiv. Bbls	Gas \$ per MCF	Oil \$ per Bbl	Price per Net Equiv. Bbl
3/31/92	4058	5402	6078	1.24	10.91	10.52
3/31/91	9234	6660	8199	1.76	13.98	13.33

Note: Prices are net of state severance taxes.

Natural gas sales are all derived from production in the Black Warrior Basin (Coal Fire Creek Field) in northwest Alabama. Demand was severely depressed during the first quarter of 1992. Hughes Texas was previously selling under a one year contract that expired 12/31/91 and which provided for a contract price of \$2.00 per MCF, including state severance tax. Sales for the 1st quarter of 1992 were all at spot price, approximately \$1.24 per MCF.

Oil prices were severely depressed during first quarter 1992. Sales volume (barrels) was also low due to well down-time due to equipment failures and workover.

A \$100,000 credit line earmarked for new well equipment and workover was obtained from a private investor in March, 1992. Also, sale of an undivided 1/8 interest in the Junction City Field oil properties for a total price of \$100,000 was consummated in March, 1992.

Work was begun in March, 1992 to replace worn out downhole equipment in all wells and to re-work and perforate additional potentially productive zones in two wells. The month of April, 1992 showed substantial increase in oil production; however, production for May, 1992 is projected to be depressed due to shut-in of all wells during re-work of the saltwater disposal system.

The net operating los (\$27,269) for the first quarter of 1992 was due to extraordinary workover and re-work operations on 4 wells. Only the cost of the new equipment was capitalized; contract services were expensed.

PART II. OTHER INFORMATION

Item 1. On March 12, 1990 registrant filed for reorganization and protection from creditors under provisions of Chapter 11 of the Federal Bankruptcy Code.

A Fourth Amended Plan of Reorganization and Disclosure Statement was filed January 31, 1992 providing for full payment of administrative expenses; full payment of secured creditors according to contract terms; partial payment of unsecured creditors over time from continued operation of the business; assignment of undivided 1/8 working interest in Junction City Field properties in settlement of debt; contingent assignment of 1/8 undivided working interest in Junction City Field properties for \$100,000 investment cash; contingent assignment of an undivided 1/16 working interest as consideration for a \$100,000 credit line from an individual investor.

The Fourth Amended Disclosure Statement was approved by the Bankruptcy Court on March 12, 1992.

The Fourth Amended Plan of Reorganization was approved by the Bankruptcy Court on May 19, 1992.

The registrant is involved in four lawsuits in which registrant is defendant. These lawsuits evolved from disputes dating back to 1986 between service companies and the operator of two wells in which registrant owns a small non-operating working interest.

- (1) Schlumberger Well Services is suing registrant for \$28,917.48 on an open account indebtedness. Hughes Texas takes the position that it did not create nor authorize the debt and is therefore not liable.
- (2) Halliburton Services is suing Hughes Texas Petroleum on an open debt. Hughes Texas is taking the position that it did not create nor is it liable for the debt. The amount in contention is \$15,881.03 plus interest and attorneys' fees.
- (3) Otis Engineering is suing Hughes Texas on an open account indebtedness. Hughes Texas takes the position that it did not incur and does not have responsibility for the debt. The principal amount is \$13,669.67 plus interest and attorneys' fees.
- (4) Farrar Well Service is suing Hughes Texas on an open account indebtedness. Hughes Texas takes the position that it did not incur and does not have the responsibility for the debt. The principal amount is \$40,152 plus interest and attorneys' fees.

All of the foregoing lawsuits, which were filed in 1987, have been stayed as a result of Hughes Texas Petroleum Corporation filing for reorganization under the provisions of Chapter 11 of Federal Bankruptcy law.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

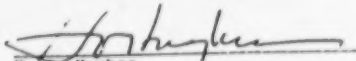
Item 5. Exhibits and Reports on Form 8-K

None.

SIGNATURES

Pursuant to the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HUGHES TEXAS PETROLEUM CORPORATION


H. O. Hughes
President

Date: May 29, 1992



92878696

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

MAR 10 1992

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934For the quarterly period ended January 25, 1992, or☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 0-16394

PROCESSED BY

MAR 19 1992

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Q-Data Corp. - St. Petersburg, FL

INMAC CORP.

(Exact name of registrant as specified in law)

Delaware(State or other jurisdiction of
incorporation or organization)94-2358985(I.R.S. Employer
Identification No.)2465 Augustine Drive
Santa Clara, CA 95052-8031
(Address of principal executive offices)

Registrant's telephone number, including area code, (408) 727-1970

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

The number of shares outstanding of the registrant's Common Stock on January 25, 1992 was 9,452,738.

IMMAC CORP.
FORM 10-Q QUARTERLY REPORT

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6.	Not applicable with respect to the current reporting period.	
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PART I -- FINANCIAL INFORMATION
INMAC CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JANUARY 25, 1992 (UNAUDITED) AND JULY 27, 1991

ASSETS	January 25, 1992	July 27, 1991
	(In thousands)	
Current assets:		
Cash and cash equivalents	\$ 8,711	\$ 13,306
Receivables, net of allowances	48,590	37,975
Inventories	39,189	35,207
Prepaid expenses	9,503	5,409
Taxes receivable and other current assets	<u>1,830</u>	<u>4,048</u>
Total current assets	107,823	95,945
Property, plant and equipment, net	8,976	8,527
Other assets	<u>3,119</u>	<u>2,913</u>
Total assets	<u>\$119,918</u>	<u>\$107,385</u>
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 27,050	\$ 20,528
Accrued liabilities	13,919	13,397
Bank debt	27,949	22,395
Income taxes	5,453	4,547
Accrued restructuring costs, current	<u>233</u>	<u>315</u>
Total current liabilities	74,604	61,182
Long-term debt	594	412
Accrued restructuring costs - noncurrent	330	440
Stockholders' equity:		
Common stock	12,553	12,548
Retained earnings	32,134	33,743
Cumulative translation adjustments	<u>(297)</u>	<u>(940)</u>
Total stockholders' equity	<u>44,390</u>	<u>45,351</u>
Total liabilities and stockholders' equity	<u>\$119,918</u>	<u>\$107,385</u>

See accompanying notes to unaudited consolidated financial statements.

INMAC CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED
JANUARY 25, 1992 (UNAUDITED) AND JANUARY 26, 1991 (UNAUDITED)

(In thousands, except per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Jan. 25, 1992</u>	<u>Jan. 26, 1991</u>	<u>Jan. 25, 1992</u>	<u>Jan. 26, 1991</u>
Sales	\$ 78,150	\$ 77,919	\$ 149,454	\$ 154,185
Cost of sales	<u>54,535</u>	<u>50,388</u>	<u>103,006</u>	<u>99,546</u>
Gross profit	23,615	27,531	46,448	54,639
Selling, general, and administrative expenses	<u>24,611</u>	<u>24,939</u>	<u>46,293</u>	<u>49,505</u>
Operating income (loss)	(996)	2,592	155	5,134
Interest expense, net	<u>222</u>	<u>472</u>	<u>580</u>	<u>1,026</u>
Income (loss) before income taxes	(1,218)	2,120	(425)	4,108
Income taxes	<u>451</u>	<u>1,367</u>	<u>1,184</u>	<u>2,722</u>
Net income (loss)	\$ <u>(1,669)</u>	\$ <u>753</u>	\$ <u>(1,609)</u>	\$ <u>1,386</u>
Net income (loss) per common and common equivalent share	\$ <u>(.18)</u>	\$ <u>.08</u>	\$ <u>(.17)</u>	\$ <u>.15</u>
Weighted average common and common equivalent shares outstanding	<u>9,452,738</u>	<u>9,444,638</u>	<u>9,455,637</u>	<u>9,445,625</u>

See accompanying notes to unaudited consolidated financial statements.

IMMAC CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JANUARY 25, 1992 (UNAUDITED)
AND JANUARY 26, 1991 (UNAUDITED)

(In thousands)

	Six Months Ended	
	January 25, 1992	January 26, 1991
Cash flows from operating activities:		
Net income	\$ (1,609)	\$ 1,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for returns and doubtful receivables	612	(91)
Depreciation and amortization	2,087	1,850
(Gain) loss on disposal of fixed assets	84	146
Disposition of fixed assets previously reserved in accrued restructuring costs	--	382
Deferred income taxes	(295)	24
Change in assets and liabilities:		
Receivables	(11,227)	(5,579)
Inventories	(3,982)	330
Prepaid expenses and other current assets	(1,876)	(1,206)
Accounts payable and accrued liabilities	6,991	4,462
Income taxes	1,201	(119)
Other assets	(390)	(412)
Accrued restructuring costs	(192)	(2,196)
Translation adjustment	(105)	778
Net cash provided (used) by operating activities	(8,701)	(245)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(2,187)	(2,527)
Proceeds from sales of equipment	52	29
Net cash used in investing activities	(2,135)	(2,498)
Cash flows from financing activities:		
Bank borrowings	5,554	(1,323)
Principal payments under capital lease obligation	(66)	(45)
Proceeds from sale of common stock	5	108
Net cash provided (used) by financing activities	5,493	(1,260)
Effect of exchange rate changes on cash	748	178
Net decrease in cash and cash equivalents	(4,595)	(3,825)
Cash and cash equivalents at beginning of year	13,306	10,946
Cash and cash equivalents at year-to-date	\$ 8,711	\$ 7,121
Supplemental disclosures of cash flow information:		
Cash paid year-to-date for:		
Interest	\$ 869	\$ 931
Income taxes	\$ (167)	\$ 2,193
Supplemental schedule of noncash investing and financing activities:		

Capital lease obligations totalling \$220,000 were incurred when the Company entered into leases for new equipment in October 1991 (\$110,000) and in November 1991 (\$110,000).

See accompanying notes to unaudited consolidated financial statements.

INMAC CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Inmac Corp. and its wholly owned subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) which, in the opinion of management, are necessary for the fair presentation of the results of the Company at the dates of the balance sheets.

The consolidated financial statements have been prepared by the Company without audit and are subject to year-end adjustment. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

It is suggested that these interim statements be read in conjunction with the audited financial statements and notes thereto included in the registrant's Annual Report (Commission File Number 0-16394) filed on Form 10-K for the fiscal year ended July 27, 1991.

Results of operations for the three months and six months ended January 25, 1992 are not necessarily indicative of results to be achieved for the full fiscal year.

2. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Inventories are comprised of the following:

	<u>January 25, 1992</u>	<u>July 27, 1991</u>
	(In thousands)	
Raw materials and manufacturing supplies	\$ 2,811	\$ 2,869
Finished goods	<u>36,378</u>	<u>32,338</u>
	<u>\$ 39,189</u>	<u>\$ 35,207</u>

3. Income Per Share

The computation of net income per share is based on the weighted average number of shares outstanding and equivalent shares from dilutive stock options assuming:

- o The stock options granted during each period presented, had been outstanding at the beginning of each period presented, and
- o The proceeds from the exercise of the stock options were used to repurchase common shares using the "treasury stock" method.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

FINANCIAL CONDITION

Cash and cash equivalent balances increased by \$1.6 million this quarter compared to the same quarter-end last year. Since July 27, 1991 these cash balances decreased by \$4.6 million primarily to meet seasonal requirements for higher levels of receivables and inventories.

Receivables, net of allowances, increased by \$10.6 million since fiscal year-end primarily due to the seasonality of sales revenues. Sales revenues for the quarter ended January 25, 1992 were 19% higher than in the quarter ended July 27, 1991. The average number of days-sales-outstanding as receivables at January 25, 1992 is slightly lower than the number at the end of last year's second quarter. This reflects the Company's continued emphasis on sound credit management programs.

Inventories increased by \$4.0 million since fiscal year-end in order to meet the inventory requirements of the higher sales levels noted above.

Prepaid expenses increased by \$4.1 million since fiscal year-end mainly due to prepaid tax payments of \$3.6 million.

Taxes receivable and other current assets decreased by \$2.2 million since fiscal year-end principally because tax refunds were received from taxing authorities.

Accounts payable increased by \$6.5 million since July 27, 1991 in order to meet seasonal requirements. Average monthly inventory purchases totalled \$6.7 million more in this quarter than in the quarter ended July 27, 1991.

Bank debt and other liabilities increased by \$5.5 million since July 27, 1991 primarily in order to fund operating expenses and the increased receivables and inventories resulting from sales in the quarter which were 19% higher than the fourth quarter of fiscal 1991.

RESULTS OF OPERATIONS

Sales increased by 0.3% from \$77.9 million for the second quarter of fiscal 1991 to \$78.1 million for the second quarter of fiscal 1992. As adjusted for foreign currency exchange fluctuations, sales grew by 4.8% during the quarter. Sales decreased by \$4.7 million or 3% during the six month period compared to the six months ended January 26, 1991. As adjusted for currency fluctuations, sales increased by 2.2% on a year-to-date basis.

The Company believes that sales have been affected by the economic recession in the U.S. and Europe and its severe impact on Fortune 1,000 companies which are an important market segment for the Company. The Company has taken several steps to stimulate sales including lowering prices in selected markets and continuing to invest in the development of new customers.

The effect on sales of lowering prices in the first quarter of fiscal 1992 was favorable but the effect on the gross profit margin was unfavorable. Gross profit margins as a percent of sales were 30.2% and 35.3% for the second quarter of fiscal 1992 and 1991, respectively, and were 31.0% and 35.4% for the six months ended January 25, 1992 and January 26, 1991, respectively. The Company has taken steps to improve the gross profit margin. These steps include placing a stronger marketing emphasis on products with higher margins. As a result, the Company does not expect additional erosion of profit margins, even though competitive pressures on pricing are expected to continue.

Selling, general and administrative expenses decreased as a percent of sales from 32.0% for the second quarter of fiscal 1991 to 31.5% for the same quarter of fiscal 1992. Similarly on a year-to-date basis, these expenses decreased as a percent of sales from 32.1% for fiscal 1991 to 30.9% for fiscal 1992. These favorable year-on-year comparisons are mainly the result of reduced catalog production costs even though the number of active catalogs is up year-on-year.

Net interest expense was reduced from \$1.0 million for the first half of fiscal 1991 to \$0.6 million for the first half of fiscal 1992 due to lower interest rates and lower average bank debt balances net of cash and cash equivalents.

Income tax expense decreased by \$0.9 million for the quarter and by \$1.5 million for the six months ended January 25, 1992 compared to the same periods in fiscal 1991. These decreases are the result of pre-tax losses in certain of the Company's subsidiaries for the quarter and for the six months. Income tax expenses were incurred despite losses on a consolidated basis during these periods because certain subsidiaries earned income before taxes on which the Company must pay tax. Loss carryforward provisions exist under the tax laws of all countries in which Inmac does business.

The Financial Accounting Standards Board issued Statement 109, "Accounting for Income Taxes", in February 1992. The Statement supersedes Statement 96 and APB Opinion 11, and is effective for fiscal years beginning after December 15, 1992. Adoption of the Statement is not expected to have a significant effect on the Company.

Net income decreased by \$2.4 million for the quarter and by \$3.0 million for the six months ended January 25, 1992 compared to the same periods in fiscal 1991. The operating results are due to lower sales for the six months and lower gross margins that were not fully offset by lower selling, general and administrative expenses, and lower interest rates.

LIQUIDITY AND CAPITAL RESOURCES

As of January 25, 1992, the Company's unused sources of liquidity consisted of \$8.7 million in cash and cash equivalents, and approximately \$7.1 million in unused lines of credit expiring beginning in April 1992 and thereafter. As of January 25, 1992, because of this quarter's loss, the Company was not in compliance with certain profit-related aspects of its bank covenants, but the Company has been advised by its banks that waivers will be provided.

The Company believes that cash flow from operations, existing cash resources and funds available from bank borrowings will be adequate to meet its working capital requirements at least through the end of fiscal 1992. During February 1992 a new one-year credit facility of £5.0 million was extended to two Inmac Corp. subsidiaries, Inmac UK, Ltd. and the Business Superstore Ltd.

FUTURE RESULTS

The Company's operating results in the last two quarters of fiscal 1992 will be affected by worldwide economic conditions including the extent and length of economic recessions in its markets. Operating results will also be affected by fluctuations in exchange rates among the countries in which Inmac operates. International sales account for approximately 70% of the Company's sales. Accordingly, since currency fluctuations are unpredictable, and even though the Company seeks to protect itself from excessive fluctuations, the Company's results may be affected from quarter to quarter. Other factors which may impact sales and operating results from quarter to quarter, include sales seasonality, the timing of catalog mailings, and the impact of new marketing or country development. In addition, operating results in the remainder of fiscal 1992 may be affected by increased investments the Company will make in a chain of Europe-based computer and office product superstores. (See Part II--Item 5 on page 11 for more details.)

The Company expects operating results in the third and fourth quarters of fiscal 1992 to show improved performance compared to the second quarter results. The Company has planned and put into place actions to reduce product costs, direct response production costs, and operating expenses. These efforts should favorably impact the last half of the year. The Company believes its sales results will depend on continued favorable customer response to its direct response offerings including the new LAN, Workstation, and Hardware/Software catalogs. The Company's ability to achieve overall profitability for the year depends on these actions and on successfully implementing its sales strategy. Sales will also be affected by economic conditions prevailing in the countries in which the Company does business.

PART II -- OTHER INFORMATION

EUROPEAN COMPUTER/OFFICE PRODUCT SUPERSTORES

The Company announced on February 19, 1992 its intention to open a chain of Europe-based computer and office product superstores.

The chain, known as The Business Superstore, will sell a complete range of brand name office products in addition to a full complement of IBM, Apple, Compaq and Toshiba notebook and personal computers at deep discounts from list price. Besides carrying a full range of office stationery goods, the business to business warehouse stores will also sell a broad selection of software, accessories, and furniture principally targeted to the small business operator. To enhance the offering to its customers, the Company will also provide related business services such as training, service contracts, printing, fax transmissions, duplicating, installation, and delivery.

Inmac has committed approximately \$5 million to the project during the current fiscal year. The first store is expected to open in March 1992 with a second to follow in the next few months. These two London, England area stores will provide the basis for roll-out to the major business centers across the continent commencing in the fall of 1992.

SIGNATURE

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

INMAC CORP.
(Registrant)

DATE March 6, 1992


(Vice President, Finance and Chief
Financial Officer, Michael J. Waide)

N 92-2274

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Form 1-Q
SECURITIES AND EXCHANGE COMMISSION

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Washington, D.C. 20549



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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 25, 1992

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-19447

NATIONAL BEVERAGE CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

59-2605822

(I.R.S. Employer
Identification No.)

One North University Drive, Ft. Lauderdale, FL
(Address of principal executive offices)

333 PROCESSED BY

(Zip Code) 13-13-8
MAR 19 1992

(305) 581-0922

(Registrant's telephone number, including area

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Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ()

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

2,320,591 Shares of \$.01 Par Value Common Stock as of March 9, 1992

National Beverage Corp.
Quarterly Report On Form 10-Q
For Quarter Ended January 25, 1992

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NATIONAL BEVERAGE CORP. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JANUARY 25, 1992 AND APRIL 27, 1991 (Dollars in thousands)

	(Unaudited)	
	Jan. 25, 1992	April 27, 1991
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,817	\$ 18,028
Trade receivables (net of allowance of \$2,007 at January 25, 1992 and \$1,896 at April 27, 1991)	16,816	24,570
Inventories	17,773	17,950
Prepaid and other	<u>1,300</u>	<u>591</u>
Total current assets	<u>54,706</u>	<u>61,529</u>
	55,003	57,019
PROPERTY - Net		
	12,814	13,086
INTANGIBLE AND OTHER ASSETS		
	<u>16,307</u>	<u>16,307</u>
INVESTMENT IN AFFILIATE		
	<u>\$138,830</u>	<u>\$147,941</u>
TOTAL		
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,936	\$ 18,902
Accrued liabilities	17,002	17,058
Income taxes payable	94	3,069
Payable to affiliate	869	1,622
Current portion of long-term debt	<u>32,393</u>	<u>31,079</u>
Total current liabilities	<u>61,294</u>	<u>71,730</u>
LONG-TERM DEBT:		
Affiliate	17,200	17,161
Other	<u>28,658</u>	<u>31,507</u>
Total long-term debt	<u>45,858</u>	<u>48,668</u>
DEFERRED INCOME TAXES	<u>6,268</u>	<u>6,776</u>
SHAREHOLDERS' EQUITY:		
Preferred stock, 7% cumulative, \$1 par value, aggregate liquidation preference of \$15,000 (1,000,000 shares authorized; 150,000 shares outstanding)	150	150
Common stock, \$.01 par value (10,000,000 shares authorized; 2,320,591 shares outstanding)	32	32
Additional paid-in capital	14,819	14,819
Retained earnings	22,157	17,514
Treasury stock - At cost	(7,176)	(7,176)
Company's pro rata interest in the cost of its shares held by affiliate	<u>(4,572)</u>	<u>(4,572)</u>
Total shareholders' equity	<u>25,410</u>	<u>20,767</u>
TOTAL	<u>30</u>	<u>\$147,941</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL BEVERAGE CORP. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED
JANUARY 23, 1992 AND JANUARY 24, 1991
(Dollars in thousands, except per share amounts)

	(Unaudited)			
	Three Months Ended		Nine Months Ended	
	1992	1991	1992	1991
GROSS SALES	\$76,094	\$76,699	\$297,167	\$289,240
LESS - Cash and promotional discounts	<u>14,736</u>	<u>16,014</u>	<u>54,689</u>	<u>59,468</u>
SALES - Net	<u>61,358</u>	<u>60,685</u>	<u>242,478</u>	<u>229,772</u>
EXPENSES:				
Cost of sales	45,331	48,106	178,909	171,717
General, administrative and selling	<u>14,423</u>	<u>12,796</u>	<u>48,241</u>	<u>44,732</u>
Total	<u>59,754</u>	<u>60,902</u>	<u>227,150</u>	<u>216,449</u>
INCOME (LOSS) FROM OPERATIONS	1,604	(217)	15,328	13,323
INTEREST EXPENSE	(1,936)	(3,050)	(5,844)	(8,711)
OTHER INCOME - Net	<u>215</u>	<u>260</u>	<u>679</u>	<u>783</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN (LOSS) OF AFFILIATE	(117)	(3,007)	10,163	5,393
PROVISION (BENEFIT) FOR INCOME TAXES	<u>164</u>	<u>(1,122)</u>	<u>4,732</u>	<u>2,335</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN (LOSS) OF AFFILIATE	(281)	(1,885)	5,431	3,058
EQUITY IN (LOSS) OF AFFILIATE	<u>-</u>	<u>(2,483)</u>	<u>-</u>	<u>(1,533)</u>
NET INCOME (LOSS)	<u>\$ (281)</u>	<u>\$ (4,368)</u>	<u>\$ 5,431</u>	<u>\$ 1,525</u>
SHARES USED IN PER SHARE COMPUTATIONS (000)	<u>2,321</u>	<u>2,296</u>	<u>2,321</u>	<u>2,296 (1)</u>
EARNINGS (LOSS) APPLICABLE TO COMMON SHARES	<u>\$ (463)</u>	<u>\$ (4,506)</u>	<u>\$ 4,885</u>	<u>\$ 1,111</u>
NET INCOME (LOSS) PER COMMON SHARE	<u>\$ (.20)</u>	<u>\$ (1.97)</u>	<u>\$ 2.10</u>	<u>\$.48 (1)</u>

(1) Restated for the approximately 31.5 to 1 stock split declared by the Company on January 20, 1991.

See accompanying notes to condensed consolidated financial statements.

ATIONAL BEVERAGE CORP. AND CONSOLIDATED SUBSIDIARIES

ONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

OR THE NINE MONTHS ENDED JANUARY 25, 1992 (Dollars in thousands)

(unaudited)

	PREFERRED STOCK	COMMON SHARES OUTSTANDING	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	PRO RATA INTEREST IN COMPANY SHARES HELD BY AFFILIATE	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT APRIL 27, 1991	\$150	2,320,591	\$32	\$14,819	\$(7,176)	\$(4,572)	\$17,514	\$20,767
NET INCOME							5,431	5,431
PREFERRED STOCK DIVIDENDS							(788)	(788)
BALANCE AT JANUARY 25, 1992	\$150	2,320,591	\$32	\$14,819	\$(7,176)	\$(4,572)	\$22,157	\$25,410

See accompanying notes to condensed consolidated financial statements.

NATIONAL BEVERAGE CORP. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JANUARY 25, 1992 AND JANUARY 26, 1991
(Dollars in thousands)

	(Unaudited)	
	<u>1992</u>	<u>1991</u>
OPERATING ACTIVITIES:		
Net income	\$ 5,431	\$ 1,525
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,664	4,431
Deferred income tax benefit	(508)	-
Equity in loss of affiliate	-	1,533
Provision for doubtful accounts and other	111	495
Gain on sale of property	43	11
Changes in:		
Receivables	7,643	5,362
Inventories	177	430
Prepaid and other assets	(427)	570
Accounts payable	(7,966)	(4,431)
Other current liabilities	<u>(3,784)</u>	<u>(1,573)</u>
Net cash provided by operating activities	<u>5,374</u>	<u>3,353</u>
INVESTING ACTIVITIES:		
Property additions	(2,307)	(2,067)
Proceeds from sale of property	<u>6</u>	<u>36</u>
Net cash used in investing activities	<u>(2,301)</u>	<u>(2,031)</u>
FINANCING ACTIVITIES:		
Long-term debt:		
Borrowings	13,325	36,037
Repayments	(14,821)	(43,111)
Preferred stock dividends paid	<u>(788)</u>	<u>(788)</u>
Net cash used in financing activities	<u>(2,284)</u>	<u>(7,862)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	789	(1,540)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>18,028</u>	<u>22,300</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$18,817</u>	<u>\$20,760</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL BEVERAGE CORP. AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 25, 1992

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of National Beverage Corp. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information. They do not include all information and footnotes required by generally accepted accounting principles for annual financial statements. Except for the matters disclosed, however, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the Company's financial statements for the year ended April 27, 1991. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the interim periods presented are not necessarily indicative of results which might be expected for the entire fiscal year. Certain prior year amounts have been restated to conform to the current presentation.

The Company is in the process of evaluating ways to further reduce its ownership in its affiliate. Due to the immateriality of the amount of earnings and the possibility that the equity method of accounting may be discontinued in the future, equity in earnings of affiliate has not been reflected for the period ended January 25, 1992. Based on quoted market prices, the aggregate market value of the Company's holdings in its affiliate was approximately \$12,220,000 at January 25, 1992.

2. INVENTORIES

Inventories are stated at the lower of first-in, first-out (FIFO), cost or market at January 25, 1992 and April 27, 1991 and are comprised of the following:

	<u>January 25, 1992</u>	<u>April 27, 1991</u>
Finished goods	\$ 8,554,000	\$ 9,399,000
Raw materials and packaging supplies	<u>9,219,000</u>	<u>8,551,000</u>
Total	<u>\$17,773,000</u>	<u>\$17,950,000</u>

3. PROPERTY

Property at January 25, 1992 and April 27, 1991 consists of the following:

	<u>January 25, 1992</u>	<u>April 27, 1991</u>
Land	\$ 8,026,000	\$ 8,026,000
Buildings and improvements	26,815,000	26,616,000
Machinery and equipment	<u>48,039,000</u>	<u>45,989,000</u>
Total	82,880,000	80,631,000
Less accumulated depreciation	<u>(27,877,000)</u>	<u>(23,612,000)</u>
Property - net	<u>\$55,003,000</u>	<u>\$57,019,000</u>

4. LONG-TERM DEBT

Long-term debt at January 25, 1992 and April 27, 1991 consists of the following:		
	January 25, 1992	April 27, 1991
Subordinated debenture due affiliate, effective rate of 14.6%, due November 1994 through November 2000, net of discount of \$300,000 at January 25, 1992 and \$339,000 at April 27, 1991	<u>\$17,200,000</u>	<u>\$17,161,000</u>
Due others:		
Revolving credit (see below)	\$35,379,000	\$32,029,000
Note payable, at 10%, due in semi-annual installments through September 19, 1994	4,095,000	7,385,000
Note due bank, prime + 1/2% (7% at January 25, 1992), due January 31, 1992, collateralized by affiliate stock	7,500,000	8,000,000
Note due bank, reference rate + 1/2% (7% at January 25, 1992), due 1995, collateralized by subsidiaries' assets	11,263,000	12,112,000
	<u>2,814,000</u>	<u>3,060,000</u>
Other (including capital leases)	61,061,000	62,586,000
Total	<u>32,393,000</u>	<u>31,079,000</u>
Less current portion		
	<u>\$28,658,000</u>	<u>\$31,507,000</u>
Long-term portion		

As of January 25, 1992, the Company had a revolving credit agreement, secured by the assets of certain subsidiaries, which bears interest at prime plus 1/2% or at the euro dollar rate plus 1 3/4%, at the Company's option. The interest rate on the revolving credit agreement was 7% at January 25, 1992. This agreement was modified on October 30, 1991 to provide that, among other things, amounts available under such line of credit (\$35,379,000 at January 25, 1992) would decline by \$1,250,000 on February 29, 1992, April 30, 1992 and June 30, 1992; and on July 31, 1992, the amount available declines to \$15,100,000 and continues to decline by \$1,000,000 quarterly to \$13,100,000 through January 31, 1993, at which time the line of credit expires. The credit agreement contains restrictions on capital expenditures, incurrence of additional debt and commitments, and payment of dividends by the subsidiaries, and requires such subsidiaries to maintain minimum levels of net worth. In addition, the Company had outstanding letters of credit of \$1,317,000 at January 25, 1992.

A subordinated note payable in the amount of \$7,385,000 was previously subject to litigation with respect to certain claims relating to assets purchased from the holder. The litigation was settled on September 19, 1991, and in conjunction with such settlement, the Company made a principal payment of approximately \$3,290,000 and delivered a new note in the amount of \$4,095,000.

A note payable to a bank in the principal amount of \$8,000,000 was due on July 31, 1991. On November 27, 1991, the Company entered into an agreement with the bank which provided for a \$500,000 principal reduction and extended the maturity of the remaining principal balance of \$7,500,000 to January 31, 1992. Subsequent to January 31, 1992 the Company entered into an agreement with the bank which provided for a \$250,000 principal reduction and extended the maturity of the remaining principal balance of \$7,250,000 to April 30, 1992.

The Company is currently engaged in discussions with certain lenders regarding the refinancing of substantially all of the Company's debt, other than amounts due its affiliate, and such lenders have expressed a strong interest in such refinancing. Although there can be no assurances that any such refinancing transactions will be consummated, management believes that sufficient sources of alternate refinancing are available to the Company. Such potential alternate refinancing sources include, among others, the private placement or public offering of debt or equity securities.

PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL POSITION

The Company's cash and cash equivalents increased \$799,000 to \$18,817,000 during the nine months ended January 25, 1992. Cash generated from operating activities for the nine month period amounted to \$5,374,000 which was used principally for the repayment of long term debt and capital additions, and to a lesser extent for payment of preferred stock dividends.

As of January 25, 1992, the Company's working capital deficit was \$6,568,000. Current liabilities totalled \$61,294,000 which included \$32,393,000 current portion of long-term debt. The Company is currently engaged in discussions with certain lenders regarding the refinancing of substantially all of the Company's debt, other than amounts due its affiliate, and such lenders have expressed a strong interest in such refinancing. Although there can be no assurances that any such alternative refinancing transactions will be consummated, management believes that sufficient sources of alternate refinancing are available to the Company. Such potential alternate refinancing sources include, among others, the private placement or public offering of debt or equity securities.

The Company's current financing activities other than the refinance have consisted primarily of borrowings and repayments under existing revolving credit agreements. Management believes these resources to be adequate to satisfy current operational needs.

An aggregate of \$46,642,000 of the Company's bank debt outstanding at January 25, 1992 represents the primary obligations of two of the Company's subsidiaries, secured by certain of their respective assets. Such loans contain certain financial covenants which restrict the amount of dividends, loans and other payments to the Company, the maintenance of minimum levels of net worth, limitations on capital expenditures, and incurrence of additional debt and commitments. A subsidiary loan agreement provides that the loan becomes due in the event of certain changes in control.

The Company's level of capital expenditures for the nine month period ended January 25, 1992 were \$2,307,000. The Company anticipates that the level of capital expenditures will remain the same for the balance of the fiscal year.

RESULTS OF OPERATIONS

Nine Months Ended January 25, 1992 as compared to Nine Months Ended January 26, 1991

Net sales for the nine months ended January 25, 1992 increased by \$12,706,000 or 5.5% to \$242,478,000 as compared to \$229,772,000 for the same period in the prior year. Net unit pricing decreased by 3.7% during the current period when compared to the prior year due to a shift in sales mix and increased promotional activity. The Company's total case volume increased 9.5% from the level in the same period in the prior year.

Cost of Sales for nine months ended January 25, 1992 increased \$7,192,000, or 4.2%, to \$178,909,000 as compared to \$171,717,000 for last year. Such increase is attributable principally to higher case volume. Cost per unit for the current period decreased 5.0% when compared to the same period in the prior year. This is principally the result of the increased unit volume, a shift in product mix, and lower raw material costs. Management anticipates this trend will continue for the balance of the fiscal year.

General, administrative and selling expenses increased by 7.8% to \$48,241,000 for the nine months ended January 25, 1992 when compared to the same period in the prior year. The increased expense resulted from legal fees related to litigation which was dismissed during the period, higher case volume and the effects of inflation on certain expenses.

Interest expense declined to \$5,844,000 for the period as compared to \$8,711,000 for the same period in the prior year due mainly to the reduction in debt resulting from the exchange of 3,846,163 shares of affiliate common stock owned by the Company for \$22,500,000 of debt owed to the affiliate by the Company and, to a lesser extent, lower interest rates during the current fiscal year.

Other income, which is comprised principally of interest income, decreased \$102,000 in the current period when compared to the same period in the prior year, due principally to lower average interest rates.

The Company's effective tax rate increased from 43% to 47% due principally to changes in profitability which effects the relative impact of certain state taxes.

Three Months Ended January 25, 1992 as compared to Three Months Ended January 26, 1991

Net sales for the three months ended January 25, 1992 increased by \$673,000 or 1.1% to \$61,358,000 as compared to \$60,685,000 for the same period in the prior year. Net unit pricing decreased by 5.3% during the current quarter when compared to the prior year due to a shift in sales mix. The Company's case volume increased 7.0% from the level in the same period in the prior year, and more than offset the net unit pricing decline.

The Company's unit sales and profits from operations are generally lower during this period (November through December) due to seasonal factors.

Cost of Sales per unit for the current quarter decreased by approximately 12.0% when compared to the same period in the prior year. This is a result principally of the increased unit volume and shift in product mix.

General, administrative and selling expenses increased by 12.7% to \$14,423,000 for the three months ended January 25, 1992 when compared to the same period in the prior year. The increased expense resulted principally from higher case volume during the period, and the effects of inflation on certain expenses.

Interest expense declined to \$1,936,000 for the quarter as compared to \$3,050,000 for the same period in the prior year due mainly to the reduction in debt resulting from the exchange of 3,846,163 shares of affiliate common stock owned by the Company for \$22,500,000 of debt owed to the affiliate by the Company and, to a lesser extent, lower interest rates during the current period.

The Company's tax provision for the period was principally effected by the profitability of certain subsidiaries relative to the impact of certain state taxes.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

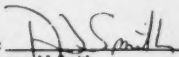
- (a) Exhibits - None
- (b) Reports on Form 8-K - None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

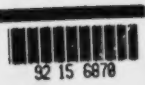
NATIONAL BEVERAGE CORP.

DATE: March 9, 1992

By: 
Raymond J. Smith
Vice President/Finance
(On behalf of the Registrant and as
Principal Accounting Officer)

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

REC'D S.E.C.
JUN 11 1992
137

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
of the Securities Exchange Act of 1934

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6/3

For quarter ended March 31, 1992 Commission file number 0-11689

Norcap Financial Corporation
(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction of
incorporation or organization)

86-0292751
IRS Employer Identification No.

8300 North Hayden Road, Suite 209
Scottsdale, Arizona
(Address of principal executive
offices)

85258
(Zip Code)

(602)998-1655
(Registrant's Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at March 31, 1992 Class

13,646,087

PROCESSED BY Stock, No par value

230

JUN 4 1992

9-9-0

NORCAP FINANCIAL CORPORATION AND SUBSIDIARIES
COMMISSION FILE NUMBER 0-11689
FORM 10-Q
MARCH 31, 1992

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PART II OTHER INFORMATION

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Item 1 - Financial Statements

NORCAP FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) MARCH 31, 1992	(UNAUDITED) JUNE 30, 1991
ASSETS		
Cash and cash items	\$72,289	\$33,601
Receivables:		
Due from customers	34,623	27,498
Other receivables	43,171	44,945
Notes receivable - current portion	344,173	349,173
Allowance for doubtful accounts	(129,984)	(129,984)
	314,272	325,233
Investments	477,063	481,008
Furniture, fixtures, and equipment, net	7,484	13,709
Other assets	423	0
Goodwill	61,200	62,400
	\$860,442	\$882,350
LIABILITIES & STOCKHOLDERS' EQUITY		
Accounts payable	\$30,088	\$23,013
Deferred revenue	0	3,142
Notes payable to related entities	46,000	14,000
Accrued salaries	157,000	82,000
Other accrued liabilities	2,281	2,460
Due to stockholder	5,693	5,693
Current portion of partnership contributions	30,880	30,880
Current portion of notes payable	0	4,041
	271,942	165,229
Commitments and contingencies		
Partnership contributions less current portion	164,900	164,900
Long-term debt	276,217	309,920
Minority interest in consolidated entities	32,186	31,566
Stockholders' equity:		
Preferred Stock, (5,000,000 no par shares authorized, none issued and outstanding)	0	0
Common Stock (50,000,000 no par shares authorized, 13,646,087 outstanding at March 31, 1992 and June 30, 1991)	5,716,846	5,716,846
Accumulated deficit since November 25, 1983	(5,601,649)	(5,506,111)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$860,442	\$882,350

NORCAP FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	NINE MONTHS ENDED	
	MARCH 31,	
	1992	1991
Revenue:		
Management fees	\$127,159	\$254,359
Interest income	1,349	5,431
Other income (loss)	21,241	6,041
TOTAL REVENUE	149,749	265,831
Costs and expenses:		
Management fees	0	4,849
Operating costs	245,829	300,854
Provision for doubtful accounts	0	8,322
TOTAL EXPENSES	245,829	314,025
NET INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	(96,080)	(48,194)
Minority interest in income (loss) of consolidated partnerships	542	(1,859)
NET INCOME (LOSS)	(\$95,538)	(\$50,053)
Per share amounts:		
Net Income (Loss)	(\$0.01)	(\$0.01)
Weighted average number of shares outstanding	13,646,087	8,938,962

NORCAP FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

THREE MONTHS ENDED

MARCH 31,

1992

1991

Revenue:

Management fees	\$13,334	\$93,251
Interest income	326	319
Other income (loss)	7,335	(3,589)
TOTAL REVENUE	20,995	89,981

Costs and expenses:

Management fees	0	0
Operating costs	36,830	106,895
Provision for doubtful accounts	0	0
TOTAL EXPENSES	36,830	106,895

NET INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	(15,835)	(16,914)
---	-----------------	-----------------

Minority interest in income (loss)
of consolidated entities

0

0

NET INCOME (LOSS)	(\$15,835)	(\$16,914)
--------------------------	-------------------	-------------------

Per share amounts:

Net Income (loss)	(\$0.00)	(\$0.00)
--------------------------	-----------------	-----------------

Weighted average number of
shares outstanding

13,646,087

13,646,087

NORCAP FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED	
	MARCH 31,	
	1992	1991
Cash Flows from Operating Activities:		
Net Income (loss)	(\$95,538)	(\$50,053)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	2,992	3,294
Amortization	1,200	1,200
(Increase) Decrease in due from customers	(7,125)	2,250
(Increase) Decrease in other receivables	1,774	28,792
(Increase) Decrease in notes receivable	5,000	(84,429)
Increase in allowance for doubtful accounts	0	17,954
(Increase) Decrease in prepaid expenses & deposits	0	37,333
Decrease in other assets	(423)	1,702
Increase (Decrease) in accounts payable	7,075	(6,590)
(Decrease) in deferred revenue	(3,142)	(16,254)
Increase (Decrease) in accrued liabilities	74,821	36,980
Increase (Decrease) in due to stockholder	0	0
Increase (Decrease) in minority interest	620	(5,031)
Total adjustments	82,792	17,201
Net cash used in operating activities	(12,746)	(32,852)
Cash flows from investing activities:		
(Purchase) disposition of equipment	3,233	(2,762)
(Increase) Decrease in investments	3,945	(74,859)
Payments made for limited partnership investments	0	(28,800)
Net cash used in investing activities	7,178	(106,421)
Cash flows from financing activities:		
Proceeds from loans	0	70,200
Payments (made to) received from related parties	32,000	5,500
Payments made on loans	(37,744)	(1,211)
Net cash provided by financing activities	(5,744)	74,489
Net increase (decrease) in cash	(11,312)	(64,784)
Cash at beginning of period	33,601	84,308
Cash at end of period	\$22,289	\$19,524

NORCAP FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 1992, are not necessarily indicative of the results that may be expected for the year ended June 30, 1992.

2. PER SHARE AMOUNTS:

Per share amounts are computed based upon the weighted average number of shares outstanding for each period presented.

**Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

LIQUIDITY AND CAPITAL RESOURCES

Operations of the Company are primarily financed with internally generated liquid assets (cash and receivables less current liabilities of approximately \$40,000 at March 31, 1992).

In consideration of the reductions in liquid assets of the Company, the Board of Directors and management of the Company have continued to explore the possibilities of obtaining financing (through the private placement of convertible notes, merger, or the issuance of capital stock for cash or assets) should it be necessary to cover current operating expenses or accommodate anticipated growth. However, management cannot provide any assurance at this time that any of these possibilities for raising additional funds will occur.

The current non-capital intensive nature of the organization does not require the maintenance of large cash balances. Current operations of the Company include some recurring debt obligations in connection with certain limited partnerships of which a subsidiary of the Company is a general partner. A significant portion of the Company's expenditures are made in the form of

compensation in direct relationship to revenues earned. Accordingly, fluctuations in activity generally do not materially impact the liquidity of the Company.

The Company has no present material commitments for capital expenditures or substantial commitments for expenditures for diversification. Financial resources are limited, and there is no assurance that financing will be available should it become necessary. It is management's belief that the Company's present capital and potential resources will permit the Company to meet its obligations on a timely basis and will provide the working capital required to sustain its present level of operations.

The market for the Company's product, i.e. pre-development or partially developed land, is soft and the ability for the Company to make a profit on such anticipated transactions is dependent upon external factors such as population growth, interest rates and general economic conditions.

The Company is affected by inflation, which can cause increases in interest rates, the price of land, and operating expenses. However, inflation does not appear to have a material impact on the Company's business.

RESULTS OF OPERATIONS

In the third quarter of fiscal 1992, the Company had a net loss of approximately \$16,000 compared to a loss of \$17,000 for the same quarter in fiscal 1991.

Revenue for the three months ended March 31, 1992 was approximately \$21,000 compared to approximately \$90,000 for the three months ended March 31, 1991. This decrease was due to the loss in revenue from the Raemarc transaction in the second quarter of fiscal 1992. The accounting treatment for Raemarc was changed from the consolidation method, which includes revenue and expenses in operations, to the equity method which includes their share of net income. In the third quarter of fiscal 1991 Raemarc had revenue of \$68,000.

During the third quarter of fiscal 1992, operating costs decreased to approximately \$37,000 compared to approximately \$107,000 for the similar period in fiscal 1991. The reason for the decrease was due to the Raemarc transaction. In the third quarter of fiscal 1991 Raemarc had operating costs of \$59,000.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Items 2, 3, 4, and 5.

Not applicable.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - None

(b) Reports on Form 8-K

None

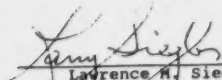
SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORCAP FINANCIAL CORPORATION

(Registrant)

Date: May 29, 1992



Lawrence H. Siegler
Chief Financial Officer
Treasurer
(Duly Authorized Officer)

92871892

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

REC'D SEC

MAR 13 1992

137

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-1365

SCIOTO DOWNS, INC.

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of
incorporation or organization)

31-4440550

(I.R.S. Employer
Identification No.)

630
PROCESSED BY 6000 SOUTH HIGH STREET, COLUMBUS, OHIO 43207
(Address of principal executive offices) (Zip Code)

MAR 26 1992

(614) 491-2515

ent's telephone number, including area code)

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Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months
and (2) has been subject to such filing requirements for the
past 90 days.

Yes X No _____

The number of common shares outstanding at February 28, 1992:

395,767, par value \$1.05

BEST COPY
AVAILABLE

SCIOTO DOWNS, INC.

I N D E X

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SCIOTO DOWNS, INC.

BALANCE SHEET, January 31, 1992 and 1991 and October 31, 1991

ASSETS

	Jan 31, <u>1992</u> (Unaudited)	Oct 31, <u>1991</u>	Jan 31, <u>1991</u> (Unaudited)
Current assets:			
Cash and cash equivalents	\$ 55,583	\$ 210,453	\$ 7,596
Accounts receivable	10,088	33,356	16,936
Prepaid expenses and other	56,685	46,246	79,110
Income tax refundable (Note 3)	280,287	80,287	153,000
Deferred income taxes	<u>3,875</u>	<u>3,875</u>	<u>3,875</u>
Total current assets	<u>406,518</u>	<u>374,217</u>	<u>260,517</u>
Property and equipment, at cost	18,188,232	18,188,232	12,819,027
Less accumulated depreciation	<u>8,648,775</u>	<u>8,473,775</u>	<u>7,999,282</u>
	9,539,457	9,714,457	4,819,745
Construction in progress	<u>9,539,457</u>	<u>9,714,457</u>	<u>2,563,213</u>
	<u>9,539,457</u>	<u>9,714,457</u>	<u>7,382,958</u>
	<u>\$ 9,945,975</u>	<u>\$ 10,088,674</u>	<u>\$ 7,643,475</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 42,915	\$ 63,725	\$ 62,673
Short-term borrowings	315,000		
Current maturities, term debt	100,000	100,000	
Accrued expenses	<u>106,390</u>	<u>145,106</u>	<u>132,639</u>
Total current liabilities	<u>564,305</u>	<u>308,831</u>	<u>195,312</u>
Deferred income taxes	424,233	424,233	338,233
Construction debt payable	3,557,256	3,570,237	1,357,870
Stockholders' equity:			
Common stock, issued and out- standing, 595,767 shares	625,555	625,555	625,555
Capital in excess of par value	2,037,300	2,037,300	2,037,300
Retained earnings	<u>2,737,326</u>	<u>3,122,518</u>	<u>3,089,205</u>
Total stockholders' equity	<u>5,400,181</u>	<u>5,785,373</u>	<u>5,752,060</u>
	<u>\$ 9,945,975</u>	<u>\$ 10,088,674</u>	<u>\$ 7,643,475</u>

The accompanying notes are an integral part of the financial statements.

SCIOTO DOWNS, INC..

STATEMENT OF OPERATIONS
for the three-month periods ended January 31, 1992 and 1991
(Unaudited)

	1992	1991
Operating revenues, other	\$ <u>3,717</u>	\$ <u>2,672</u>
Operating expenses:		
Salaries and wages	123,525	112,649
Depreciation	175,000	125,000
Other operating and general expense	<u>197,997</u>	<u>217,849</u>
	<u>496,522</u>	<u>455,498</u>
Loss from operations	(492,805)	(452,826)
Net interest (expense) income	(<u>92,387</u>)	<u>3,601</u>
Loss before income tax benefit	(585,192)	(449,225)
Income tax benefit of operating loss (Note 3)	<u>200,000</u>	<u>153,000</u>
Net loss	\$ <u>(385,192)</u>	\$ <u>(296,225)</u>
Net loss per common share (Note 2)	\$ <u>(.65)</u>	\$ <u>(.50)</u>
Weighted average common shares outstanding	<u>595,767</u>	<u>595,767</u>

The accompanying notes are an integral
part of the financial statements.

SCIOTO DOWNS, INC.

STATEMENT OF CASH FLOWS
for the three-month periods ended January 31, 1992 and 1991
(Unaudited)

	1992	1991
Cash flows used in operating activities:		
Net loss	\$(185,192)	\$(296,225)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	175,000	125,000
Change in accounts receivable	23,268	50,874
Change in prepaid expenses and other	(10,439)	(44,114)
Change in federal income tax refundable	(200,000)	(32,868)
Change in accounts payable	(20,810)	(21,197)
Change in accrued expenses	(38,716)	(33,523)
Total adjustments	(71,697)	41,232
Net cash used in operating activities	(456,889)	(251,993)
Cash flows used in investing activities:		
Purchase of property and equipment		(1,939,512)
Net cash used in investing activities		(1,939,512)
Cash flows from financing activities:		
Borrowing on construction loan		1,357,870
Repayment of term debt	(12,981)	
Proceeds from short-term borrowings	115,000	
Net cash provided by financing activities	102,019	1,357,870
Net decrease in cash and cash equivalents	(154,870)	(833,635)
Cash and cash equivalents, beginning of period	210,453	841,231
Cash and cash equivalents, end of period	\$ 55,583	\$ 7,596
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ -0-	\$ 13,500
Interest	\$ 93,818	\$ 6,646

The accompanying notes are an integral part of the financial statements.

SCIOTO DOWNS, INC.

NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation:

The information furnished reflects all adjustments which are, in the opinion of management, necessary to present a fair statement of the results for the interim periods on a basis consistent with that of prior periods.

The accompanying unaudited financial statements are presented in accordance with the requirements of Form 10-Q and, consequently, do not include all the disclosures normally required by generally accepted accounting principles or those normally made in the Company's annual Form 10-K filing. Reference should be made to the Company's 1991 Form 10-K for additional disclosures, including a summary of the Company's accounting policies.

2. Loss Per Share:

Net loss per share is derived by dividing net loss by the weighted average number of shares outstanding during the period.

3. Income Taxes:

Due to the seasonal nature of the business, the Company historically sustains operating losses in the first quarter of the year which may be offset by operating profit during the racing season that falls later in the fiscal year. Accordingly, the income tax benefit of such seasonal losses has been recorded at the expected annual effective tax rate of 34%, as realization of such benefit will arise from the partial offset of the current loss against income generated from profitable operations during the racing season. It is anticipated that sufficient income will not be generated in the remainder of the year to offset the entire seasonal loss. Any remaining net operating losses will be carried back and used to recover taxes paid on previously taxed earnings of the Company.

SCIOTO DOWNS, INC.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

January 31, 1992 Compared to October 31, 1991

Because of the seasonal nature of the business, the Company experiences net operating losses during the first two quarters of the fiscal year. Additionally, the Company utilizes the off-season to effect repairs and maintenance as well as major track and facility improvements. As a result, the Company borrowed funds on its line of credit to finance operations and to service debt. Consequently, the liquidity and cash flow of the Company have been directly affected.

The racing season at Scioto Downs annually falls within the third quarter ending in July. The majority of rental income from leasing the racing facility to Mid-America Racing Association is earned during the fourth quarter of the year, ending in October.

Three Months Ended January 31, 1992 Compared to
Three Months Ended January 31, 1991

Other operating and general expense increased primarily as a result of a one-time expenditure incurred for testing and removal of fuel tanks on the property. The higher depreciation charge in 1991 reflects track improvements placed in service during the prior racing season.

Interest income decreased due to significantly lower cash balances which were used primarily to fund the Clubhouse enclosure and pay operating expenditures during the first quarter of fiscal 1992. Interest expense was incurred on borrowings used to finance the Clubhouse enclosure and to fund operations. The increased income tax benefit reflects the larger operating loss incurred for the quarter.

SCIOTO DOWNS, INC.

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings - None
- Item 2. Changes in Securities - None
- Item 3. Defaults Upon Senior Securities - None
- Item 4. Submission of Matters to a Vote of Security Holders - None
- Item 5. Other Information - None
- Item 6. Exhibits and Reports on Form 8-K
 - (a) Exhibits - None
 - (b) Reports on Form 8-K - No reports on Form 8-K were filed during the quarter ended January 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCIOTO DOWNS, INC.

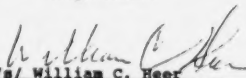
Registrant

DATE

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BY



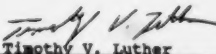
/s/ William C. Heer
William C. Heer, Treasurer

DATE

3/12

. 1992

BY



/s/ Timothy V. Luther
Timothy V. Luther Controller



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FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 For quarter ended January 31,
1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934 For the transition period from _____
to _____

Commission file number 33-32881-NY

SIGMA ALPHA ENTERTAINMENT GROUP, LTD. 1NY1
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
incorporation or organization)

23-2498715
(I.R.S. Employer
Identification No.)

1080 M. Delaware Avenue, Philadelphia, PA
(Address of principal executive offices)

19125
(Zip Code)

(215) 425-8682
(Registrant's telephone number,
including area code)

Indicate by check mark whether the registrant (1) has
filed all reports required to be filed by Section 13 or
15(d) of the Securities Exchange Act of 1934 during the
preceding 12 months (or for such shorter periods that the
registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past
90 days. Yes X No

Indicate the number of shares outstanding of each of the
issuer's classes of common stock, as of the latest
practicable date.

Class
(Common Stock, \$.001 par value)

Outstanding at April 8, 1992
13,676,380 12/12/92

PROCESSED BY

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APR 13 1992

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SIGMA ALPHA ENTERTAINMENT GROUP, LTD

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January 31, 1992 and July 31, 1991

Consolidated statements of operations --

Three months ended January 31, 1992 and 1991

Six months ended January 31, 1992 and 1991

Consolidated statements of cash flows --

Six months ended January 31, 1992 and 1991

Notes to consolidated financial statements --

January 31, 1992

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of Financial Condition and Results
of Operations

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Item 4. Submission of Matters to a Vote of
Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SIGMA ALPHA ENTERTAINMENT GROUP, LTD. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	January 31, 1992 (UNAUDITED)	July 31, 1991 (NOTE 1)
ASSETS		
CURRENT ASSETS:	\$ 1,000	\$ --
Cash and Equivalents		
Accounts Receivable - trade, less allowance for doubtful accounts of \$34,000 (January 31, 1992) and \$30,000 (July 31, 1991)	32,000	111,000
Notes Receivable	10,000	--
Inventories	62,000	129,000
Equipment held for resale	--	426,000
Prepaid expenses and other current assets	1,000	19,000
Total Current Assets	<u>106,000</u>	<u>685,000</u>
ADVANCES TO ARTISTS, LESS ALLOWANCE FOR NON RECOUPMENT OF \$763,000 (January 31, 1992) and \$653,000 (July 31, 1991)	660,000	710,000
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTISATION	479,000	513,000
	--	73,000
DEFERRED OFFERING COSTS	<u>1,245,000</u>	<u>1,981,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
CURRENT LIABILITIES:	\$ 279,000	\$ 999,000
Notes payable to banks	200,000	309,000
Current portion of long-term debt	442,000	314,000
Notes payable to officers	631,000	734,000
Notes payable to others	985,000	802,000
Accounts payable - trade	83,000	225,000
Estimated liability for sales returns	284,000	169,000
Due to distributor	292,000	208,000
Taxes, other than income taxes	400,000	150,000
Accrued wages - officer	428,000	431,000
Accrued expenses and other current liabilities	<u>8,024,000</u>	<u>8,334,000</u>
Total Current Liabilities	<u>480,000</u>	<u>93,000</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES		
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Common stock, \$.001 par value:		
Authorized - 80,000,000 shares		
Issued and outstanding - 13,306,000 shares (January 31, 1992) and 11,106,000 shares (July 31, 1991)	12,000	11,000
Additional paid-in-capital	8,631,000	3,969,000
Retained earnings (deficit)	<u>(8,437,000)</u>	<u>(6,426,000)</u>
	<u>(2,794,000)</u>	<u>(2,446,000)</u>
Less-Unearned future compensation to consultants	(465,000)	--
Total Stockholders' Equity (Deficiency)	<u>(3,259,000)</u>	<u>(2,446,000)</u>
	<u>\$ 1,245,000</u>	<u>\$ 1,981,000</u>

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

The Company's continuing record operations constitute a development stage enterprise which intends to develop and market new recording artists. Activities to date have been primarily directed towards organizing these operations, recruiting employees, developing an artist roster and obtaining capital. Accordingly, the following statements have been prepared to present the continuing record operations.

	Three Months Ended January 31		Six Months Ended January 31	
	1992	1991	1992	1991
COSTS AND EXPENSES RELATING TO CONTINUING RECORD OPERATIONS:				
Cost of record sales and distribution	\$ 59,000	\$ 38,000	\$ 62,000	\$ 170,000
New artist development costs	7,000	205,000	10,000	351,000
Provision for non-recoupment	100,000	--	100,000	--
Marketing and promotion	235,000	108,000	431,000	292,000
General and Administrative Expenses:				
Officers' compensation	125,000	68,000	250,000	161,000
Other salaries and payroll costs	97,000	30,000	203,000	169,000
Consulting fees	459,000	184,000	547,000	408,000
Professional fees	164,000	148,000	211,000	148,000
Other	107,000	293,000	215,000	486,000
Total general and admin. expenses	952,000	723,000	1,426,000	1,372,000
Interest Expense	83,000	55,000	190,000	137,000
Total development stage costs and expenses	1,416,000	1,131,000	2,319,000	2,322,000
REVENUES PRIOR TO COMMENCEMENT OF PLANNED PRINCIPAL CONTINUING OPERATIONS:				
Limited sales of records, less sales returns of \$0 and \$213,000 (three months ended 1992 and 1991); \$16,000 and \$268,000 (six months ended 1992 and 1991)	--	2,000	--	14,000
Licensing fees and other	10,000	4,000	19,000	6,000
Total development stage revenues	10,000	6,000	19,000	20,000
LOSS FROM CONTINUING RECORD OPERATIONS	(1,406,000)	(1,125,000)	(2,200,000)	(2,302,000)
INCOME (LOSS) FROM DISCONTINUED STUDIO OPERATIONS:				
Operating Loss	--	(4,000)	(30,000)	(98,000)
Gain on sale of studio	--	--	219,000	--
NET LOSS	\$ (1,406,000)	\$ (1,129,000)	\$ (2,011,000)	\$ (2,400,000)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
	13,300,042	3,833,334	12,978,882	3,769,016
LOSS PER SHARE OF COMMON STOCK:				
Continuing record operations	\$ (.11)	\$ (.29)	\$ (.17)	\$ (.61)
Discontinued studio operations:				
Operating loss	\$ --	\$ --	\$ --	\$ (.03)
Gain on sale of studio	\$ --	\$ --	\$.02	\$ --
Net loss	\$ (.11)	\$ (.29)	\$ (.15)	\$ (.64)

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP, LTD AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES
IN STOCKHOLDERS' EQUITY (DEFICIENCY)
UNAUDITED

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>
	<u>Number of</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>
	<u>Shares</u>		<u>Capital</u>	<u>(Deficit)</u>
BALANCES, JULY 31, 1991:	11,106,000	\$11,000	\$3,969,000	\$6,426,000
<u>SIX MONTHS ENDED,</u>				
<u>JANUARY 31, 1991:</u>				
Issuance of common stock:				
For warrant exercise, less related costs of \$73,000	54,000	--	61,000	
For cash, less related costs of \$14,000	150,000	--	136,000	
For consulting and other services	1,496,000	1,000	1,083,000	
For conversion of debt	500,000	--	382,000	
Net loss				(2,011,000)
BALANCES, JANUARY 31, 1992	<u>13,306,000</u>	<u>\$12,000</u>	<u>\$5,631,000</u>	<u>\$18,437,000</u>

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP, LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended January 31,	
	<u>1992</u>	<u>1991</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$(2,011,000)	\$(2,400,000)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization of property and equipment	76,000	124,000
Gain on sale of equipment	(219,000)	--
Issuance of common stock for services provided	619,000	60,000
Changes in operating assets and liabilities:		
Accounts receivable - trade	79,000	(6,000)
Notes receivable	(10,000)	--
Due (to) from distributor	119,000	52,000
Inventories	67,000	(56,000)
Prepaid expenses and other current assets	18,000	(4,000)
Accounts payable - trade	135,000	248,000
Estimated liability for sales returns	(142,000)	56,000
Taxes, other than income taxes, payable	87,000	95,000
Advances to artists	50,000	(28,000)
Accrued expenses and other current liabilities	301,000	550,000
Net cash flows from operating activities	<u>(831,000)</u>	<u>(1,309,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term and subordinated debt	--	8,000
Principal payments on long-term debt	(2,000)	(11,000)
Net borrowings under notes payable to banks	32,000	--
Principal payments under notes payable to banks	(2,000)	--
Proceeds from notes payable to others	285,000	1,122,000
Repayments on notes payable to others	(15,000)	(86,000)
Net Proceeds from issuance of common stock	197,000	100,000
Deferred offering costs	73,000	39,000
Proceeds from loans payable from officers	443,000	166,000
Repayments of loans payable from officers	(179,000)	(29,000)
Net cash flows from financing activities	<u>832,000</u>	<u>1,309,000</u>
NET CHANGE IN CASH AND EQUIVALENTS	1,000	--
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	--	--
CASH AND EQUIVALENTS, END OF PERIOD	<u>\$ 1,000</u>	<u>\$ --</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 50,000</u>	<u>\$ 101,000</u>
Net debt relieved pursuant to sale of studio	<u>\$ 603,000</u>	<u>\$ --</u>
Assets sold pursuant to sale of studio	<u>\$ 384,000</u>	<u>\$ --</u>
Consulting and other future services paid by issuance of common stock	<u>\$1,084,000</u>	<u>\$ --</u>
Conversion of notes payable to others, plus accrued interest, into common stock	<u>\$ 382,000</u>	<u>\$ --</u>
Conversion of preferred stock to notes payable to officers	<u>\$ --</u>	<u>\$ 456,000</u>

See accompanying notes to consolidated financial statements.

SIGMA ALPHA ENTERTAINMENT GROUP LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION:

The Company's consolidated balance sheet at the end of the preceding fiscal year has been derived from the audited consolidated balance sheet contained in the Company's Form 10-K and is presented for comparative purposes. All other financial statements are unaudited. In the opinion of management, all adjustments which include only normal recurring adjustments necessary to present fairly the financial position, results of operations and changes in financial position for all periods presented have been made. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

Footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the most recent fiscal year.

The Company's success is dependent on its ability to generate cash in order to satisfy its immediate and short term needs. In the event the Company is unsuccessful in meeting its present cash needs, financial reporting on a liquidation or reorganization basis may become necessary. Financial statements of the Company prepared on these bases would be materially different from those of a going concern primarily in substantial writedowns in the carrying amounts of inventories, advances to artists and property and equipment.

NOTE 2 - COMMITMENTS AND CONTINGENCIES:

Legal Proceedings

The Company is a defendant in a number of legal proceedings which have occurred in the normal course of business. Those cases in which the ultimate settlement is known or can be estimated have been accrued in the financial statements. The aggregate claims in excess of amounts accrued at January 31, 1992 are not significant.

SIGMA ALPHA ENTERTAINMENT GROUP LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is an analysis of certain significant factors that have affected the Company's financial position and operating results during the periods included in the accompanying consolidated financial statements. This discussion should be read in conjunction with management's discussion and analysis filed with Form 10-K for the fiscal year ended July 31, 1991.

Material Changes in Results of Operations

Total development stage costs and expenses decreased from \$2,322,000 for the six months ended January 31, 1991 to \$2,219,000 for the same six month period ended 1992. This decrease relates principally to significant new artist development costs incurred in 1991. These same costs and expenses increased from \$1,131,000 for the three months ended January 31, 1991 to \$1,416,000 for the three months ended January 31, 1992 for a total increase of \$285,000. This increase was principally the result of (a) a substantial stock issuance for services rendered in lieu of salary to the former director of corporate finance; (b) the accrual of unpaid salaries to officers in accordance with their respective employment agreements; and (c) management's decision to expense a portion of artist advances to include the related inventory attributable to those artists who are not scheduled to be released in the current fiscal year.

By consummating the sale of the Company's studio division and realizing a gain of \$219,000 on the transaction, management expects to reduce its general operating costs and interest expense in future periods while continuing to maintain its focus on building a viable entertainment record label.

Liquidity and Capital Resources

The Company's cash flow from financing activities contributed \$832,000 for the six months ended January 31, 1992 and \$1,309,000 for the six months ended January 31, 1991 primarily from the issuance of stock for cash, loans from others, and periodic loans from the President and Chairman of the Company.

The decline in the Company's accounts receivable from \$111,000 in 1991 to \$32,000 in 1992 is principally the result of a lack of record sales and collection of the studio receivables not sold in connection with the sale of the studio.

The Company continues to experience financial difficulties. However, management is aggressively pursuing various financing arrangements to continue to develop and release its product and generate future sales. Specifically, the following material events have taken place since the Company's fiscal 1991 year end:

- (1) In addition to those warrants exercised and reported in these financial statements, the Company recently received proceeds of \$423,000 from the exercise of 169,200 Class A warrants.
- (2) Private placements of 400,000 shares have been sold for gross proceeds of \$200,000.
- (3) The Company is currently in negotiations to eliminate its outstanding payroll tax liability and has paid \$40,000 toward this liability since February 1, 1992 while continuing to make current tax deposits.
- (4) Proceeds from debt and equity investors have been substantially used for artist development, promotion and marketing for the Company's artists and to pay down outstanding liabilities through various payment arrangements.

The Company is currently scheduled to release Lorenzo's single and album, its first artist release to be distributed through PolyGram Distribution and in retail outlets early June 1992. However, due to the lag time in sales of approximately two months from the date of release, the Company does not expect to realize sales from this release until approximately September, 1992.

Management continues to explore new talent while working on its current artist roster. The Company's second and third artist releases, Brandon and Life, are currently in production and it is anticipated that the Company's second artist release through PolyGram Distribution will occur in September of 1992.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements the legal proceedings noted in the Company's 10-K report for the period ended July 31, 1991:

NFL Films, Inc. v. Sigma Alpha Entertainment Group, Ltd. and Alpha International Record Company, Pennsylvania Court of Common Pleas, Philadelphia County, #90-10-06730. The Company has paid NFL Films additional sums and presently owes \$8,500. The Company expects to pay the balance by the beginning of May, 1992.

Solid State Logic v. Sigma Alpha Entertainment Group, Ltd., Pennsylvania Court of Common Pleas, Philadelphia County, #91-02-2523. On January 7, 1992, the Company reached an out of court settlement with Plaintiff, however the Company has not met all of the installments. The Company is presently negotiating a revised payment schedule for this Matter.

Imaging Systems, Inc. v. Alpha International Record Company, Pennsylvania Court of Common Pleas, Philadelphia County, May Term, 1991, No. 547. A judgment was entered without notice to the Company and the Company intends to appeal if a satisfactory settlement can not be achieved.

Penn Colour Graphics, Inc. v. Alpha International Records, Pennsylvania Court of Common Pleas, Philadelphia County, July Term, 1991. On March 16, 1992, the Company entered into a stipulation in which a judgment totalling \$17,500.00 would be paid out over a period of ten months.

Bell Atlantic Tricon Leasing Corporation v. Sigma Alpha Entertainment Group, Ltd., Pennsylvania Court of Common Pleas, Philadelphia County, August Term, 1991, No. 2451. The parties reached a second settlement agreement to pay the sum of \$17,000 over a twelve month period, beginning March 18, 1992.

Rosenbluth Travel Agency, Inc. v. Alpha International Records, Pennsylvania Court of Common Pleas, Philadelphia County, October Term, 1991, No. 56. The Company has reached a settlement of this Matter.

Federal Express Corporation v. Alpha International Records, Pennsylvania Court of Common Pleas, Philadelphia County, June Term, 1991, No. 3379. The Company has satisfied the obligation in this Matter.

Masterwork Recording, Inc. v. Alpha International Record Co., Court of Common Pleas, Philadelphia County, Pennsylvania, November Term, 1991, No. 2955. A summary judgment was granted for Plaintiff on March 11, 1992 and the Company is attempting to negotiate a payment of the judgment over a reasonable period of time.

Bellevue Stratford v. Alpha International Record Co., Philadelphia Municipal Court. The Company has satisfied the judgment.

CEMA Distribution v. Sigma Alpha Entertainment Group, Ltd/Alpha International Records. The Company filed its Answer on January 23, 1992. This case is presently the subject of a mediation process and the Company has submitted a proposed settlement which Plaintiff is presently considering.

Item 2. Changes in Securities

NONE

Item 3. Defaults Upon Senior Securities

NONE

Item 4. Submission of Matters to the Vote of Shareholders

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

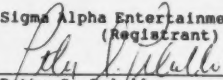
NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

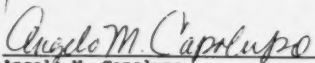
Sigma Alpha Entertainment Group, Ltd
(Registrant)

Date: April 8, 1992



Peter S. Felullo
President and Chief Executive Officer

Date: April 8, 1992



Angelo M. Capolupo
Controller (Principal Accounting
Officer)

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the Quarter Ended January 31, 1992

Commission file number 0-11228

Systems Assurance Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

One Washington Square, Wyncote, PA
(Address of principal executive offices)

Registrant's telephone number, including area code (215) 885-2150

Indicate by check mark whether the registrant (1) has filed
all reports required to be filed by Section 13 or 15 (d) of the
Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the registrant was required to
file such reports) and (2) has been subject to such filing
requirements for the past 90 days.

Yes ☒

No ☐

Indicate the number of shares outstanding of each of the
issuer's classes of common stock, as of the latest possible date.

Class
Common Stock,
par value \$.01 per share

Outstanding at April 9, 1992
23,118,453

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SYSTEMS ASSURANCE CORPORATION

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SYSTEMS ASSURANCE CORPORATION

BALANCE SHEETS

ASSETS

	January 31, <u>1992</u> (Unaudited)	October 31, <u>1991</u> (Unaudited)
Current Assets		
Accounts Receivable	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Total Current Assets	<u>- 0 -</u>	<u>- 0 -</u>
	<u>\$ - 0 -</u> -----	<u>\$ - 0 -</u> -----

SYSTEMS ASSURANCE CORPORATION

BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	January 31, 1992 (Unaudited)	October 31, 1991 (Unaudited)
Current Liabilities		
Notes Payable		
Trade	\$ 159,860	\$ 159,860
Affiliates	0	0
Accounts Payable	78,097	85,784
Accrued Interest	86,360	86,360
Accrued Expenses - Affiliate	0	0
Total Current Liabilities	\$ 324,317	\$ 332,004
Stockholders' Equity (Deficit)		
Common Stock, par value \$.01 per share; authorized 30,000,000; issued and outstanding 23,118,453	231,183	231,183
Additional Paid-in Capital	8,973,743	8,973,743
Accumulated Deficit	(9,529,243)	(9,536,930)
Total Stockholders' Equity (Deficit)	(324,317)	(332,004)
	\$ - 0 -	\$ - 0 -

SYSTEMS ASSURANCE CORPORATION

STATEMENTS OF OPERATIONS

Three-Month Periods Ended January 31, 1992 and 1991

	Three-Month	
	1992	1991
	(Unaudited)	
Revenue		
License fees	\$ ---	\$1,286
Expense		
Other operating expenses	<u>1,468</u>	<u>7,079</u>
Net loss from operations	(1,468)	(5,793)
Interest expense	<u>(354)</u>	<u>(5,383)</u>
Net loss before extraordinary items and income taxes	1,822	11,176
Extraordinary item		
Forgiveness of indebtedness	<u>9,509</u>	<u>---</u>
Net Income (loss) before taxes	7,687	(11,176)
Income Taxes	---	---
Net Income (loss)	<u>7,687</u>	<u>(11,176)</u>
Earnings (loss) per share	<u>---</u>	<u>---</u>
Weighted average number of common shares outstanding	23,118,454	23,118,454

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Twelve-Month Period Ended October 31, 1991
and the Three-Month Period Ended January 31, 1992

Common Stock

	<u>Number of Shares</u>	<u>\$.01 Par Value</u>	<u>Additional Paid-In Capital in Excess of Par</u>	<u>Accumu- lated Deficit</u>	<u>Total Stock- holders' Equity (Deficit)</u>
Balance					
October 31, 1990					
(Unaudited)	23,118,454	\$231,183	\$8,973,743	\$(10,575,445)	\$(1,370,519)
Net Income				1,038,515	1,038,515
Balance					
October 31, 1991					
(Unaudited)	23,118,454	\$231,183	\$8,973,743	\$(9,536,930)	\$ (332,004)
Net Income				7,687	7,687
Balance					
January 31, 1992					
(Unaudited)	23,118,454	\$231,183	\$8,973,743	\$(9,529,243)	\$(324,317)

SYSTEMS ASSURANCE CORPORATION

STATEMENTS OF CASH FLOWS

Three-Month Periods Ended January 31, 1992 and 1991

	1992	1991
Cash flows from operating activities		
Net Income (loss)	7,687	(11,176)
Adjustments to reconcile net (loss) to net cash (used) by operating activities		
Extraordinary items	(9,509)	---
(Increase) Decrease in accounts receivable	---	---
(Decrease) Increase in accounts payable and accrued expenses	1,822	(11,201)
Total adjustments	(7,687)	(11,201)
Net cash (used) by operating activities	---	(22,377)
Cash flows from financing activities		
Proceeds of notes payable	---	209,042
Payments of notes payable, trade and affiliates	---	(186,665)
Net cash provided by financing activities	---	22,377
Net (decrease) in cash	---	---
Cash at beginning of period	---	---
Cash at end of period	\$ -0-	\$ -0-

SYSTEMS ASSURANCE CORPORATION

Notes to Financial Statements

1. Basis of Presentation

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information normally included in footnote disclosures in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10K.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Discontinuation of the Service Business for the CIBIS Customers
by IDP

On October 15, 1988, the Company entered into an Assignment and Assumption Agreement ("SAC-IDP Agreement") with IDP, pursuant to which IDP was appointed the exclusive licensee to market the Company's products and services, and under which IDP assumed all responsibilities of the Company to service and support existing CIBIS installations and for the administration, marketing, research and development, sales and servicing pertaining to future CIBIS activities. Pursuant to the SAC-IDP Agreement, IDP agreed to pay a royalty to the Company at the rate of 7% of all revenue generated by IDP on account of CIBIS net of any sublicensing fees (approximately \$4,000 for each sale of a CIBIS system) incurred in connection with the sale of CIBIS systems. On June 10, 1991, IDP agreed to pay Key Bank \$15,600 and return the IBM equipment used to service the CIBIS customers in exchange for Key Bank's general release of all the obligations of the Company and IDP. This resulted in the forgiveness of \$230,018 indebtedness that the Company had to Key Bank. Accordingly, IDP on December 31, 1991 discontinued all service to CIBIS customers.

General

The unaudited statements of operation for the three-month periods ended January 31, 1992 and 1991 reflect, in the opinion of the Company, all adjustments necessary to present fairly the results of operations for such periods. Such results are not necessarily indicative of the results for a full year. The statements of operations and other financial statements appearing herein should be read in conjunction with the financial statements, the related notes, Management's Discussions and Analysis of Financial Condition and Results of Operations appearing in the Company's annual report on Form 10-K for its fiscal year ended October 31, 1991, as well as the related notes appearing elsewhere in this report.

Results of Operations

During the three months ended January 31, 1992 the Company had no net revenues and net income of \$7,687. The net income for the three months ended January 31, 1992 resulted from forgiveness of indebtedness.

Financial Condition and Liquidity

Severe liquidity problems persisted in 1991. On January 31, 1992 current liabilities exceeded current assets by approximately \$324,317 and total liabilities exceeded total assets by approximately \$324,317. Accounts payable totaling approximately \$78,097 were overdue. Notes payable, including bank and trade notes payable of approximately \$159,860, together with \$86,360 in accrued and unpaid interest thereon, were also overdue.

The Company is attempting to work with its creditors to avoid any further legal action.

During the three months IDF forgave all of the total indebtedness from Systems Assurance in the amount of \$9,509.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is the defendant in an action brought in Massachusetts Superior Court, County of Suffolk, by McDevitt Recruitment Advertisement, Inc. The complaint was served in December 1986. It alleges a breach of an oral warranty of fitness for a particular purpose of a computer system sold to plaintiff in 1982, which allegedly never performed properly. Plaintiff seeks damages of \$30,000. The Company believes that it is not liable for any damages.

The Company was a defendant in a lawsuit commenced by Key Bank of Southern Maine. The Bank sought collection of \$200,000 due it under the terms of its Line of Credit Agreement with the Company and had entered a default judgment against the Company. The Bank had commenced activities to realize the assets of the Company which the Bank was granted a security interest. On June 10, 1991 the Company's debt to Key Bank was forgiven in exchange for return of equipment owned by IDP, Inc. and payment by IDP of \$15,600. This resulted in forgiveness of indebtedness of \$230,018, including accrued interest.

The Company is also a defendant in a lawsuit filed by Herrick & Smith, a law firm, seeking approximately \$14,284 in unpaid legal fees performed on behalf of the Company.

On January 17, 1989, Kemco, Inc., Portland, Maine, obtained a default judgment against the Company in the amount of \$869.57.

A number of the Company's creditors have threatened to commence legal actions against the Company with respect to amounts overdue.

Item 2. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits - None
- (b) Reports on Form 8-K - None

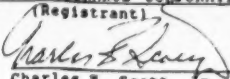
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYSTEMS ASSURANCE CORPORATION >

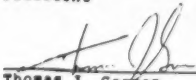
(Registrant)

Date: April 9, 1992

By: 

Charles F. Scott, Jr.
President

Date: April 9, 1992

By: 

Thomas J. Gorman
Secretary/Treasurer,
Principal Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYSTEMS ASSURANCE CORPORATION
(Registrant)

Date: April 9, 1992

By: /s/Charles F. Scott, Jr.
Charles F. Scott, Jr.
President

Date: April 9, 1992

By: /s/Thomas J. Gorman
Thomas J. Gorman
Secretary/Treasurer,
Principal Financial Officer

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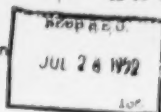
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Securities and Exchange Commission
Washington, D. C. 20549

Form 10-Q



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Quarterly Report under Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the quarter ended
January 31, 1992

Commission file number
0-14655

TELETIMER INTERNATIONAL, INC.

Delaware
(State of Incorporation) 68-0086777
(IRS Employer Identification No.)

1801 Clint Moore Road
Boca Raton, Florida 33487-9987
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number (407) 994-9044

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of The Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES _____ NO X

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Common Stock \$.001 par value 4,944,667 shares
outstanding as of August 9, 1991.

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PART I

Item 1. Financial Statements

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PART II

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TELETIMER INTERNATIONAL, INC.
 (A Development Stage Company)
 CONDENSED BALANCE SHEETS
 January 31, 1992 and July 31, 1991

	January 31, <u>1992</u>	July 31, <u>1991</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,764	\$ 22,566
Accounts receivable	2,300	25,350
Prepaid expense, principally insurance	<u>2,265</u>	<u>2,264</u>
Total current assets	<u>34,329</u>	<u>50,180</u>
Furniture and equipment, net of accumulated depreciation of \$169,693 and \$150,157 (Note 3)	38,607	45,385
Other assets (net)	60,193	58,895
Investment in common stock (Note 12)	<u>16,700</u>	<u>16,700</u>
	<u>115,500</u>	<u>118,980</u>
Total assets	\$ 149,829 *****	\$ 169,160 *****

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
CONDENSED BALANCE SHEETS
January 31, 1992 and July 31, 1991

	January 31, 1992	July 31, 1991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable (Note 6)	\$ 165,000	\$ 285,000
Current portion of long-term capital leases (Note 5)	44,432	44,432
Accounts payable and other accrued expenses (Notes 9 and 14)	476,417	517,235
Unearned fees (Note 7)	4,200	380,000
Deposits on equipment sales (Note 8)	<u>-</u>	<u>450,000</u>
Total current liabilities	690,049	1,676,667
Long-term Liabilities:		
Notes payable (Note 6)	<u>1,114,346</u>	<u>1,000,000</u>
Total Liabilities	1,804,395	2,676,667
Commitments and contingencies (Notes 10 and 13)		
Stockholders' equity (Notes 1 and 11)		
Common stock:		
Par value \$.001; 100,000,000 shares authorized, 4,944,667 shares issued and outstanding (Note 11)	4,945	3,945
Paid in capital	3,979,452	3,680,452
Deficit accumulated during the development stage	<u>(5,638,963)</u>	<u>(6,191,904)</u>
Total stockholders' equity	(1,654,566)	(2,507,507)
Total liabilities and stockholders' equity	\$ 149,829	\$ 169,160
	-----	-----

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
for three months ended January 31, 1992 and 1991
and the period from July 14, 1980 (inception)
to January 31, 1992

FOR THE PERIOD

	Nov. 1, 1991 to Jan. 31, 1992	Nov. 1, 1990 to Jan. 31, 1991	July 14, 1980 (inception) to Jan. 31, 1992
Revenues:			
Sales	\$ -	\$ 140	\$ 260,784
Interest income	748	-	169,043
Other income	-	230	98,472
Licensing Fees	100,000	-	1,650,000
Settlement income	-	-	250,000
R & D income	80,000	-	111,600
Consulting Fees	<u>75,000</u>	<u>-</u>	<u>250,000</u>
Total Revenues	<u>255,748</u>	<u>370</u>	<u>2,789,899</u>
Cost of sales	101,090	6,755	504,176
Research and development	8,512	21,541	782,871
Interest	29,850	35,244	407,235
Advertising and marketing	13,728	4,869	988,431
General and administrative	195,510	99,099	5,117,146
Loss on sale of investment	-	104,042	104,042
Minority interest	-	-	(134,534)
Settlement costs	-	-	125,000
Disposal of assets	<u>-</u>	<u>-</u>	<u>534,495</u>
Total expenses	<u>348,690</u>	<u>271,550</u>	<u>8,428,862</u>
Net profit (loss)	<u>\$ (92,942)</u>	<u>\$ (271,180)</u>	<u>\$ (5,638,963)</u>
Profit (Loss) per share (based on 4,944,667 and 3,944,667 weighted average number of common shares outstanding) in 1992 and 1991, respectively	<u>\$(.019)</u>	<u>\$(.068)</u>	

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
for the six months ended January 31, 1992 and 1991

FOR THE PERIOD

	Aug. 1, 1991 to Jan. 31, 1992	Aug. 1, 1990 to Jan. 31, 1991
Revenues:		
Sales	\$ -	\$ 350
Interest income	1,426	57
Other income	-	230
Licensing Fees	1,350,000	-
R & D income	80,000	-
Consulting Fees	150,000	-
Total Revenues	1,581,426	637
Cost of sales	246,817	11,886
Research and development	20,319	32,578
Interest	72,037	81,120
Advertising and marketing	28,093	69,057
General and administrative	661,219	280,834
Loss on sale of investment	-	104,042
Total expenses	1,028,485	559,515
Net profit (loss)	\$ 552,941	\$ (558,878)
Profit (Loss) per share (based on 4,895,754 and 3,944,667 weighted average number of common shares outstanding) in 1992 and 1991, respectively	\$.112	\$ (.142)

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

for six months ended January 31, 1992 and 1991 and
the period from July 14, 1980 (inception) to January 31, 1992
Increase (decrease) in Cash and Cash Equivalents

FOR THE PERIOD

	Aug. 1, 1991 to Jan. 31, 1992	Aug. 1, 1990 to Jan. 31, 1991	July 14, 1980 to (inception) to Jan. 31, 1992
Cash flows from operating activities:			
Net income (loss)	\$ 552,941	\$(558,878)	\$(5,638,963)
Adjustments to reconcile net (loss) to net cash provided by operating activities:			
Depreciation and amortization	29,751	55,002	422,911
Shares in conjunction with agreements	-	-	192,564
Loss on disposal of assets	-	-	758,307
Marketing service from stock transfer	-	-	54,000
Loss on sale of investment shares	-	143,132	143,132
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	23,050	109,570	(99,205)
Decrease (increase) in prepaid expenses	(1)	83,071	(2,265)
(increase) in other assets	(14,458)	4,353	(125,381)
Increase (decrease) in accounts payable and accrued expenses	(40,818)	101,578	553,108
Increase (decrease) in payable to related party	-	25	1,399
Increase (decrease) in unearned fees	(375,800)	(350)	4,200
Increase in deposit on equipment sales	(450,000)	-	-
Total adjustments	(828,278)	496,381	1,902,770
Net cash (used) by operating activities	(275,335)	(62,497)	(3,736,193)

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

for six months ended January 31, 1992 and 1991 and
the period from July 14, 1980 (Inception) to January 31, 1992
increase (decrease) in Cash and Cash Equivalents, Continued

FOR THE PERIOD

	Aug. 1, 1991 to Jan. 31, 1992	Aug. 1, 1990 to Jan. 31, 1991	July 14, 1980 (Inception) to Jan. 31, 1992
Cash flows from investing activities:			
Purchase of furniture & equipment and revenue producing equipment	\$(11,813)	\$(4,995)	\$(1,157,029)
Decrease in investments designated for the purchase of revenue producing equipment	-	-	-
Net cash (used) by investing activities	(11,813)	(4,995)	(1,157,029)
Cash flows from financing activities:			
Release of pledged certificate of deposit	-	-	600,000
Pledged certificates of deposit	-	-	(600,000)
Borrowings under line-of-credit agreements	-	-	1,315,000
Other borrowings	(5,654)	30,000	114,346
Repayments of line of credit	-	-	(150,000)
Proceeds from notes payable to stockholder	-	-	385,000
Repayment of notes payable to stockholder	-	-	(385,000)
Proceeds from issuance of common stock	300,000	-	3,369,664
Proceeds from stock transfer	-	-	61,869
Increase in receivable from related party in connection with stock transfer	-	-	-
Principal payments under capital lease obligation	-	-	(28,357)
Decrease (increase) in foreign restricted cash	-	-	(186,308)

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

for six months ended January 31, 1992 and 1991 and
the period from July 14, 1980 (Inception) to January 31, 1992
Increase (decrease) in Cash and Cash Equivalents, Continued

FOR THE PERIOD

	Aug. 1, 1991 to Jan. 31, 1992	Aug. 1, 1990 to Jan. 31, 1991	July 14, 1980 (Inception) to Jan. 31, 1992
Proceeds from issuance of subsidiary common stock	\$ -	\$ -	\$ 306,300
Proceeds from issuance of investment stock	-	8,350	8,350
Increase (decrease) in minority interest	-	-	112,122
Increase in cumulative translation adjustment	-	(39,090)	-
Net cash provided (used) by financing activities	294,346	(740)	4,922,986
Net increase (decrease) in cash and cash equivalents	7,198	(68,232)	29,764
Cash and cash equi- valents at beginning of period	22,566	68,636	-
Cash and cash equi- valent at end of period	\$ 29,764 -----	\$ 604 -----	\$ 29,764 -----

See accompanying notes

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

1. Organization and Operations:

Teletimer International, Inc. (the Company) was organized on July 14, 1980, and since its inception has engaged in developing, operating and marketing a subscription energy management system. The system is a computer driven energy conservation program which monitors and regulates consumer energy consumption. The Company has developed and tested its system using various forms of transmission. Systems utilizing FM radio waves, cable television networks and, currently, telephone paging systems have been developed. Since its inception, the Company has been developing and testing its systems under various agreements with cable television companies, FM radio stations, public utilities and telephone companies.

2. Summary of Significant Accounting Policies:

The more significant accounting policies followed by the Company are summarized as follows:

Basis of Presentation

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is considered to be in the development stage as its planned operations have not yet generated significant revenue. The Company has incurred net losses of approximately \$5,600,000 since its inception.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to comply with the terms and covenants of its financing agreements, to obtain additional financing or refinancing as may be required, and ultimately to attain profitable operations.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS, Continued

2. Summary of Significant Accounting Policies, continued:

Accounting for Investment in Common Stock

The financial statements include the accounts of Teletimer International, Inc. The Company has an investment in common stock of an affiliated company, Teletimer Europe, N.V. For the period from the formation of Teletimer Europe, N.V. in April 1989 through December 1990, the Company maintained a 60% ownership of Teletimer Europe, N.V. This investment was accounted for using the consolidation method during this period. In December 1990, the Company sold a portion of its investment thereby reducing its ownership percentage to 40%. As a result of this ownership reduction, the Company changed its method of accounting for this investment to the equity method. The Company's fiscal 1992 and 1991 financial statements reflect the use of the equity method, while the financial statements prior to 1991 reflect the use of the consolidation method.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is calculated over the estimated useful lives (5 years) using the straight-line method.

Intangible Assets

Intangible assets are stated at cost. Amortization is calculated over the estimated useful lives using the straight-line method. Intangible assets included in other assets at January 31, 1992 and July 31, 1991 are comprised of patents, trademarks, and copyrights totaling \$44,709 and \$41,412 respectively, net of amortization.

Research and Development Costs

Research and development costs are charged to operations as incurred.

Statement of Cash Flow

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less which are not pledged as collateral to be cash equivalents.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS, Continued

2. Summary of Significant Accounting Policies, continued:

Statement of Cash Flow, cont'd

Interest payments were \$49,969 and \$25,972 for the six months ended January 31, 1992 and 1991, respectively. Excluded from the accompanying statements of cash flow are the effects of certain non-cash financing activities relating to the Company's satisfaction of \$114,346 in accrued interest expense through the issuance of additional debt. (See Note 6). Additionally, in August 1991, the Company issued 1,000,000 shares of common stock to a related party for license fees valued at \$300,000. (See Note 9).

Income Taxes

At July 31, 1991, the Company has a tax loss carry forward of approximately \$6,000,000 which is available to offset future taxable income, if any, through 2004. Differences between book and taxable income will be accounted for under the provisions of the Statement of Financial Accounting Standards No. 98, Accounting for Income Taxes.

Foreign Currency Translation

The Company's investment in a foreign entity is translated at exchange rates in effect at the balance sheet date. Gains and losses from foreign currency translation are credited or charged to cumulative translation adjustment, included in stockholders' equity in the consolidated balance sheet. The cumulative translation adjustment at July 31, 1990 is \$39,090.

3. Furniture and Equipment:

Furniture and equipment consist of the following:

	January 31 1992	July 31 1991
Leasehold Improvement	\$ 9,454	\$ 9,454
Furniture and Fixtures	27,634	27,634
Machinery and Equipment	<u>171,212</u>	<u>156,454</u>
	208,300	195,542
Less Accumulated Depreciation	<u>169,693</u>	<u>150,157</u>
	\$ 38,607	\$ 45,385
	*****	*****

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

3. Furniture and Equipment, continued:

During fiscal 1990, due to changes in design and technology the tools, jigs and dies used for the manufacture of the responders and transponders comprising the Company's systems became obsolete. The fiscal 1990 financial statements reflect a loss of \$93,451 related to the disposal of this equipment.

Included in the accompanying statements of operations for the six months ended January 31, 1992 and 1991 is \$18,591 and \$48,300, respectively, of depreciation expense related to furniture and equipment.

4. Revenue Producing Equipment:

During fiscal 1990, the Company determined that, due to changes in the design and technology of its products, much of its revenue reproducing equipment would no longer be utilized. Accordingly, the 1990 financial statements reflect a loss of \$370,422 related to the disposal of this equipment. Additionally, during 1990, certain equipment was used in the Company's research and development activities resulting in a charge of \$223,812 being recorded as research and development expense. Included in the statements of operations for fiscal year 1990 is depreciation expense of \$20,391 related to this equipment.

5. Leased Revenue Producing Equipment:

The Company leased equipment under a financing agreement and the Company accounted for this as a capital lease in accordance with Statement No. 13 of the Financial Accounting Standards Board. During fiscal 1990, the Company determined that due to changes in the design and technology of its products this leased equipment would no longer be utilized and deemed it to be obsolete. Accordingly, the 1990 financial statements reflect a loss of \$70,822 related to the disposal of this equipment. During 1990, the Company defaulted on its obligation under this capital lease. The full outstanding balance in addition to late fee charges is presently due. The amount outstanding at January 31, 1992 and July 31, 1991 amounted to \$44,432.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

6. Notes Payable:

Notes payable consisted of the following:

	January 31 <u>1992</u>	July 31 <u>1991</u>
Note payable under a line of credit of \$165,000 with a financial institution, interest at prime rate, principal currently past due, original due date November 1990	\$ 165,000	\$ 165,000
Notes payable to a corporation interest at 18%	-	65,000
Notes payable to Euro-Am Finance Corporation (Euro-Am), interest at 18%, original due dates from February 1991 thru April 1991	<u>-</u>	<u>55,000</u>
TOTAL NOTES PAYABLE	\$ 165,000 -----	\$ 285,000 -----

Long-term Notes payable consisted of the following:

	January 31 <u>1992</u>	July 31 <u>1991</u>
Note payable to Bell Atlantic Tricon Leasing Corp., interest at prime rate plus 2%	\$1,000,000	\$1,000,000
Convertible note payable to Euro-Am Finance Corporation, interest at prime rate plus 2%	<u>114,346</u>	<u>-</u>
	\$1,114,346 -----	\$1,000,000 -----

Long-term note payable to Bell Atlantic Tricon Leasing Corporation was restructured effective August 1991, with principal payments due monthly beginning in November 1992.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

6. Notes Payable, continued:

In August 1991 the Company entered into a financing agreement with Euro-Am Finance Corporation (Euro-Am) whereby Euro-Am is prepared to advance up to \$250,000, primarily for purposes of paying accrued interest on the note payable to Bell Atlantic Tricon Leasing Corporation. The first \$104,667 advanced is convertible into the Company's common stock at the rate of \$.20 per share. Advances beyond that sum are convertible at a rate based upon the current market price of the Company's common stock. The entire principal is payable on a schedule to be agreed upon by the two parties, but no later than August 1995.

Principal payments on obligations at July 31, 1991 are as follows:

1993	\$ 220,000
1994	<u>780,000</u>
	\$1,000,000

The principal payment terms of the note payable to Bell Atlantic Tricon Leasing, as amended, extended the principal payment period resulting in less principal coming due in any year than under the original terms. (See Note 14).

7. Licensing:

Effective January 30, 1989, the Company entered into an agreement with Bell Atlantic Network Services, Inc., whereby the Company will provide Bell Atlantic the following within the Bell Atlantic region:

- a. exclusive rights within their region to purchase and distribute Teletimer's equipment and any other products of Teletimer's, if applicable, which provide comparable functions;
- b. exclusive rights within Bell Atlantic's region to provide transport of Teletimer's generated energy management signals;
- c. energy management signal generation for transport by Bell Atlantic;

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

7. Licensing, continued:

- d. exclusive rights within Bell Atlantic's region to provide all billing and collection services in connection with the system.

The Company received a license fee payment on February 9, 1989 of \$400,000 and \$30,000 as a prepayment for the purchase of equipment. Under the Agreement as amended on October 18, 1989, accepting the delayed delivery on July 1, 1989, the Company has provided eight test transponders. The equipment has proven to be acceptable to Bell Atlantic and compatible with its paging system. The amendment also included a change of the "Trial Period" from July 1, 1989 through December 31, 1989 to November 1, 1989 through June 30, 1990. The Company has recognized \$300,000 of license fees as revenue and approximately \$74,000 of related expenses, based on Bell Atlantic's acceptance of the test transponders for field tests. The additional license payment of \$200,000 was received May 17, 1989. \$300,000 of the monies received was included in unearned fees as of July 31, 1991, pending completion of the field trial by Bell Atlantic.

For a period of 24 months from November 17, 1989, the Company granted exclusive rights to Bell Atlantic Network Services to act as the provider of transport, customer premise equipment and billing services for Teletimer's Wide Area Energy Management Service, or any other similar service provided by Teletimer throughout the United States and its possessions. This exclusive requires that any deployment of the Wide Area Energy Management Services outside of Bell Atlantic's region, which is undertaken during this 24 month period be undertaken with Bell Atlantic providing the transport, customer premise equipment, and billing services in accordance with the same terms and conditions called for in the agreement between Bell Atlantic Network Service and the Company governing deployment of Wide Area Energy Management Service within Bell Atlantic's region.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

7. Licensing, continued:

Bell Atlantic may also elect to subcontract the performance of these services to a third party. However, if Bell Atlantic elects to neither perform these services itself nor subcontract these services to a third party, Bell Atlantic will grant the Company written permission to enter into non-exclusive agreements with third parties of the Company's choosing.

On August 16, 1991, the Company consummated a license and field trial agreement with Bell Atlantic Network Services, Inc. (BANSI). The agreements superseded all previous agreements the Company had with BANSI. Under the license agreement, the Company granted the exclusive rights to use Teletimer Energy Saving Service (TESS) technology including all such patents relating to such information which may be granted by any TESS related purpose including the right to license others and to procure TESS equipment from sources other than the Company. Such license is applicable to the United States, its possessions and territories. In consideration for granting such license, the Company received \$300,000 upon the execution of the agreement and delivery of TESS technology and three instalments of \$100,000 paid at 30 day intervals following execution. Additionally, all amounts previously paid to the Company by BANSI under earlier licensing, equipment purchase and other agreements, which payments were subject to performance provisions which if not met would require repayment to BANSI, were to be applied as consideration for the license and the Company was released from all prior agreements with BANSI. The \$300,000 and \$450,000 recorded as unearned fees and deposits, respectively, at July 31, 1991, were recorded as license income in August 1991.

Under the field trial agreement, the Company and BANSI will participate in a field trial at locations to be mutually agree upon. In general, the Company and BANSI have certain rights in technology capable of performing various functions related to Teletimer Energy Saving Service (TESS). The Company intends to operate the command center and generate the control signals at the command center until such time as judicial and regulatory relief is granted to BANSI allowing BANSI to perform such activities.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

7. Licensing, continued:

The Company will offer TESS services with BANSI's support during a period designed to evaluate the TESS service and associated equipment and transport and to evaluate the nature and extent of customer interest in TESS service.

In addition, BANSI, as the exclusive national license holder, appointed the Company to act as BANSI's non-exclusive agent during the term of this agreement to negotiate sublicenses to other firms authorizing such sublicensee firms to provide billing and collection, transport and equipment, installation and maintenance, in connection with TESS.

If BANSI obtains all necessary judicial and/or regulatory approvals, the Company shall allow BANSI to purchase and operate the Company's command center(s) and all associated software, including any additional new command centers required by BANSI.

At such time as such judicial and/or regulatory approvals are obtained, all marketing information, including but not limited to market plans and customer account information, shall become exclusive property of BANSI, and shall be delivered to BANSI by the Company.

In consideration of BANSI performing marketing and signal generation, BANSI will be entitled to receive 95% of the revenues actually collected from new customers for the provision of the service and the Company shall be entitled to a payment of 5% of such new customer revenues. Also, at that time, should analysis of the pricing and cost plans for TESS change so as to improve BANSI's operating profits from subscription revenues the parties will renegotiate upward the amount of such revenue payment to the Company to a mutually agreeable level.

In connection with the above, Bell Atlantic Network Services, Inc. entered into an agreement with ADC which provides that if Teletimer International, Inc. fails to perform the enhancement functions, Bell Atlantic Network Services, Inc. will retain ADC to provide technical assistance, software maintenance, support and development of enhancements to the TESS system and compensate ADC for such.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

7. Licensing, continued:

Upon completion of the field trial, BANSI, at its option, will either proceed with the project including installation, maintenance and distribution of equipment, the provisioning of transport and billing and collection for such period as may be determined at BANSI's sole option, or BANSI may terminate the relationship. In June 1992, BANSI indicated its intentions to terminate the relationship.

8. Home Automation Equipment:

Effective January 30, 1989, the Company signed an \$825,000 agreement with Bell Atlantic Network Services, Inc. whereby the Company was to deliver, by October 15, 1989, 500 sets of six modules applicable to the Company's Home Automation System and grant to Bell Atlantic during the period August 15, 1989 to February 15, 1990, exclusive world-wide marketing rights for the modules and agreed to complete the delivery of 500 each of six modules by October 15, 1989. Bell Atlantic has made partial prepayments of the 500 units of each of six different modules for evaluation in the amount of \$450,000, which is included in deposits on equipment sales as of October 31, 1991, pending delivery of equipment to Bell Atlantic. (See Note 7 above). If all six modules were found to be acceptable by Bell Atlantic, Bell Atlantic would submit to the Company another \$275,000 partial payment.

Effective October 18, 1989 this agreement was amended to extend delivery dates of conditionally accepted modules at intervals from September 6, 1989 through June 30, 1990. Accordingly, upon receipt and acceptance of modules, Bell Atlantic was to make additional partial payments to Teletimer in April 1990, May 1990, and final payment in June 1990. The final payment was to include price increases in module costs due to the addition of module features for Bell Atlantic resulting in an increase of total contract value to \$1,170,500.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

9. Related Party Transactions:

The Company has a sixty-year license agreement which began June 15, 1982 with Associated Data Consultants, Inc. ("ADC"), whose president is a shareholder of the Company and the spouse of the President of the Company, for annual royalty payments equal to 7% of the Company's gross revenues and the reimbursement of certain development costs. Total annual royalty fees amounted to \$0, \$525, and \$24,983 for the years ended July 31, 1991, 1990 and 1989, respectively.

In addition, certain costs for legal services related to patents, trademarks and copyrights were reimbursed to ADC by the Company, amounting to \$0, \$6,895 and \$38,812 for the years ended July 31, 1991, 1990, and 1989, respectively.

Included in advertising and marketing costs in 1991, 1990 and 1989 are \$0, \$66,000 and \$82,696, respectively, in fees to Economic Planning Associates, Inc. (EPA), a Company which is controlled by the son of the President of the Company and a shareholder of the Company. Such fees are the result of a service agreement entered into April 2, 1987 which requires EPA to actively seek and obtain contracts with cable companies and FM radio stations to serve as a medium for the Company's services in return for a monthly retainer of \$3,000 and a bonus of \$.03 per carrier subscriber for stations which have executed a contract as a result of their efforts. In addition, certain costs for outside services, travel and meetings, telephone and auto expenses were reimbursed to EPA by the Company. Such costs amounted to \$0, \$56 and \$4,978 for the years ended July 31, 1991, 1990 and 1989, respectively.

Effective February 28, 1990 the Company canceled the consulting agreement with Economic Planning Associates, Inc.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

9. Related Party Transactions, continued:

A summary of these related parties transactions follows for the six months ended January 31, 1992 and 1991, and the period from July 14, 1980 (Inception) to January 31, 1992:

	Aug 1, 1991 to Jan 31, 1992	Aug 1, 1990 to Jan 31, 1991	Since Inception
Auto Rent Expense	\$ -	\$ 2,475	\$ 32,550
Advertising and Marketing Costs	-	-	241,402
Research and Deve- lopment Costs	-	-	115,510
Royalty Fees	159,043	-	194,175
Other Expenses	-	-	130,768

On July 16, 1987, EPA purchased 997,027 shares of the Company's stock from Vintage Group, Inc. ("Vintage") for \$500,000. The funding of such purchase was provided by a commercial bank and the shares of stock were pledged as collateral by EPA. The Company guaranteed this loan, and pledged a \$500,000 certificate of deposit as collateral for such guaranty. Under the terms of the agreement the Company received a \$5,000 guaranty fee and the right to receive 50% of the proceeds, net of costs, from the sale of the shares by EPA. This loan was paid off on May 31, 1988 and the Company is no longer liable under such guaranty.

During December 1989 and January 1990, EPA sold 303,000 shares for \$698,230. In accordance with the agreement the Company has the right to 50% of the net proceeds.

During 1990, EPA earned \$54,000 in accordance with the service agreement previously described from the delivery of a signed contract with a radio station in Miami, Florida. The Company has offset this amount against the receivable due EPA reducing the receivable to \$294,115. Due to the uncertainty regarding the collection of this receivable, the Company has not recorded the receivable and related equity. Such amounts will be recorded when received.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS, Continued

10. Commitments:

The Company has an employment agreement with its President which extends to March 1994 at an annual salary of approximately \$140,000.

The Company leases a van under a four year lease which expires in January 1992. Warehouse space has been leased by the Company under a month-to-month lease through the current fiscal year. In addition, the Company had a four year non-cancelable operating lease agreement for office space which expired July 15, 1991. The Company has entered into a two-year renewal option under the lease. Aggregate future minimum lease payments under such lease are as follows:

Year ended July 31, 1992	\$ 44,800
1993	<u>46,600</u>
Total	<u>\$ 91,400</u>

Total rental expenses charged to operations during the years ended July 31, 1991, 1990 and 1989 were \$48,757, \$68,944 and \$71,331 respectively.

11. Stockholder's Equity:

Stock Offering

On March 11, 1987, the Company sold 1,625,000 shares of its common stock at a price of \$2.00 per share. This transaction resulted in proceeds to the Company as follows:

Gross Proceeds	\$3,250,000
Issuance Costs	<u>(623,380)</u>
Net Proceeds	<u>\$2,626,620</u>

As part of the above sale of stock, the Company sold for \$175 to the underwriters 175,000 warrants to purchase shares of common stock for \$2.60 per share, which were exercisable until October 31, 1991. No such warrants were exercised.

In August 1991, the Company issued 1,000,000 shares of common stock to ADC, a related party (see Note 9) in exchange for license fees valued at \$300,000.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

11. Stockholder's Equity:

Preferred Stock

At the annual meeting in January 1989, the shareholders approved the proposal to amend the Articles of Incorporation to authorize a class of preferred stock. No such preferred stock has been issued.

Reverse Split

Effective March 31, 1989, the Board of Directors authorized a 1 for 10 reverse stock split of the Company's \$0.001 par value common stock. As a result of the reverse split, 36,250,000 shares automatically became 3,625,000 shares. All references in the accompanying financial statements to the number of common shares and per share amounts have been restated to reflect the reverse stock split.

Long-Term Incentive Plan

The stockholders approved a long-term incentive plan ("Plan") at the annual meeting in December 1987.

The Plan provides for awards in the form of incentive stock options, non-incentive stock options, stock appreciation rights, and restricted stock. Each award shall be on such terms and conditions, consistent with the Plan, as the committee administering the Plan may determine.

The Plan authorizes the issuance of up to 360,000 shares of the Company's common stock. Shares may be either authorized but unissued shares, or reacquired shares held by the Company in its treasury.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

11. Stockholder's Equity, continued:

Long-Term Incentive Plan, continued:

In June 1988, options for 100,000 shares were granted under the plan to certain officers and employees. At July 31, 1991, only 50,000 of these options remain outstanding. These options are exercisable 20% per year, cumulatively, until July 31, 1993 at a per share price of \$2.97, which was the estimated market value per share at the time of grant.

In August 1991, the Company granted additional options for 115,000 shares of common stock to certain officers and employees. These options are exercisable at 20% per year, cumulatively, for the next five years at a price of \$0.50 per share, which was the estimated market value per share at the time of grant.

None of the above stock options have been exercised.

12. Teletimer Europe, N.V.:

On April 24, 1989, the Company, along with a group of European investors, formed Teletimer Europe, N.V. Teletimer Europe, N.V. was capitalized with 21,750,000 Belgian Francs (US\$543,071) of which 20,810,400 Belgian Francs was contributed by a European investor group known as Intervent, representing 40% ownership of the common stock. The Company retained 60% ownership in return for a capital contribution of 939,600 Belgian Francs (US\$24,552) and a license agreement granting Teletimer Europe, N.V. the right to market the Company's products, systems and services and to sublicense to other companies within the European Economic Community. The \$308,300 difference between the Company's contribution toward the capitalization of Teletimer Europe, N.V. and its 60% share of equity ownership was treated as a contribution to paid in capital.

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

12. Teletimer Europe, N.V., continued:

As of July 31, 1990, the Company had foreign restricted cash in the amount of \$186,308. This amount was restricted by the organizers of Teletimer Europe, N.V. for the purpose of developing and marketing Teletimer products within the European Economic Community and cannot be distributed, or used, to meet the obligations of the parent. The audited financial condition and results of operation of Teletimer Europe, N.V. as of July 31, 1990 are as follows:

<u>Assets</u>		<u>Liabilities and Stockholders' Equity</u>	
Restricted Cash	\$186,308	Accounts Payable and Accruals	\$ 76,690
Accounts Receivable	96,905	Common Stock	553,118
Revenue Producing Equipment	13,450	Accumulated Translation Adjustment	63,521
Fixed Assets, net	55,194	Deficit	(336,335)
Other Assets	<u>5,137</u>		
		Total Liabilities & Stockholders' Equity	\$356,994
Total Assets	\$356,994		*****

Results of Operations

Operating Income	\$ 82,728
Selling, General and Administrative	<u>376,956</u>
Loss from Operations	(294,230)
Interest Income	27,573
Other Income	<u>3,221</u>
Net Loss	(\$263,436)

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

12. Teletimer Europe, N.V., continued:

Results of Operations, continued

In December 1990, the Company sold one-third of their common stock to the European investor group for \$8,350, reducing their ownership to 40%. The fiscal 1991 financial statements reflect a loss of \$143,132 on this transaction. The unaudited financial condition and results of operation of Teletimer Europe, N.V. as of July 31, 1991 are as follows:

ASSETS

	<u>Unaudited</u>
Cash and cash equivalents	\$ 3,023
Accounts receivable	101,918
Fixed assets, net	21,989
Other assets	<u>4,240</u>
	\$ 131,148

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	\$ 20,494
Common stock	553,118
Accumulated translation adjustment	41,471
Deficit	<u>(482,935)</u>
	\$ 131,148

RESULTS OF OPERATIONS

Operating income	\$ 109,432
Selling, general and administrative	<u>266,230</u>
Loss from operations	(156,798)
Interest income	8,899
Other income	<u>2,499</u>
Net loss	\$ (147,600)

TELETIMER INTERNATIONAL, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

13. Contingencies:

The Company is a party to a lawsuit alleging breach of an agreement whereby the plaintiff is seeking judgment of approximately \$395,000, plus compensatory, punitive and exemplary damages and interest. Management does not believe that the ultimate outcome of present or threatened litigation of which it is aware will have a material adverse effect on the accompanying financial statements.

Management believes that the Company's cash needs for the fiscal year ending July 31, 1992 will be satisfied from additional capital through private placement of equity securities or debt. However, no assurance can be made with respect to the Company's success in these matters.

14. Subsequent Event:

In June 1992 the Company was in default of its loan agreement with Bell Atlantic Tricon Leasing Corp. ("TRICON"), which is secured by its TESS technology. Also, since BANSI indicated its intention to terminate its consulting agreement with the Company, Euro-Am has notified the Company that it will stop funding under their loan agreement, and has accelerated the obligations due to Euro-Am, approximately \$157,000 at June 30, 1992.

ADC asserts that as of April 30, 1992 the Company owes it approximately \$170,000 in cumulative royalties for the period August 1, 1989 through April 30, 1992. The Company has accrued \$159,043 in royalties for the six months ended January 31, 1992 and included it in cost of sales in the accompanying financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is emerging from the development stage. As such, the Company has been heavily engaged in the development of products, analysis and exploration of markets, and establishment of people and resources to exploit opportunities targeted. Sizable investments have been made in the development and production of revenue producing equipment for the Company's energy saving system and for equipment to be sold through distribution. The Company now has established specific products and systems.

All in-house product development is included in general and administrative expenses since the Company has no separate engineering department or operation. These expenditures for product, market, and personnel development are expected to be of considerable benefit to the Company in future years.

At July 31, 1991, the current liabilities included accounts payable and accrued expenses in the amount of \$517,235. They also consist of notes payable in the amount of \$285,000, unearned fees of \$350,000, deposits on equipment sales of \$450,000, and current portion of capital lease obligation of \$44,432.

The expenses incurred in our product, market, and personnel development activity have adversely impacted the Company's working capital.

At January 31, 1992, the current liabilities included accounts payable and accrued expenses in the amount of \$478,417. They also consist of notes payable in the amount of \$165,000, unearned fees of \$4,200, and current portion of capital lease obligation of \$44,432.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception in July 1980, the Company has operated at a loss. At January 31, 1992, the Company had assets of \$149,829 and liabilities of \$1,804,395.

At January 31, 1992, the Company had a working capital deficit of \$655,720 as compared to a working capital deficit of \$1,626,487 at July 31, 1991. The decreased deficit resulted primarily from the Company's operating income of \$552,941 during the six months ended January 31, 1992.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS Cont'd

LIQUIDITY AND CAPITAL RESOURCES, continued

For the past 24 months the Officers and Directors of the Company have diligently explored and pursued opportunities to improve the Company's working capital position. Despite meetings with and presentations to investment banking companies, commercial banks and venture capital organizations, no suitable opportunities could be arranged. All preliminary proposals appeared to be either too expensive or to adversely affect the Company's shareholders.

In order to maintain operations, on April 4, 1989, the Company entered into an agreement with Noble Investment Company for the Private Placement of Common Stock. Under the terms of the agreement, up to 500,000 shares were offered at \$2.20 per share, with two warrants issued for every five shares purchased, these warrants entitled the holder to purchase additional shares at \$3.00 per share for a period of two (2) years. The shares have not been registered under the Securities Act of 1933 and, therefore, contain substantial restrictions of transferability.

As of July 31, 1989, 216,385 shares had been sold yielding the Company net proceeds of \$428,443. As part of the agreement, the Company issued to the underwriters 21,638 warrants to purchase shares of Common Stock for \$2.60 per share exercisable until July 31, 1991.

In addition, the Company issued 86,555 warrants to the purchasing shareholders to purchase shares of Common Stock at \$3.00 per share exercisable until July 31, 1991.

Because the Private Placement did not raise the expected \$1,100,000, the Company continued to have a working capital deficit. By October 20, 1989, the cash position of the Company was (\$120,000). Additional capital financing was required by November 15, 1989 to enable the Company to meet its obligations as they become due.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS Cont'd

LIQUIDITY AND CAPITAL RESOURCES, continued

The Board of Directors approved a long term financing arrangement with Bell Atlantic Tricon Leasing Corporation in order to strengthen the Company's financial position. The loan includes \$1,000,000 drawn by Teletimer on November 17, 1989, with options based on need and performance, determined solely by Tricon Leasing, for two additional draws of \$500,000 each, available at the 12th month and the 18th month. The original loan term was 30 months with the interest rate at prime rate plus 2% and with an origination fee of 2% paid annually. Originally, payments were to be made monthly of interest only for the first 12 months with principal payments starting the 13th month. The loan was modified in August 1991 with principal payments beginning in November 1992.

RESULTS OF OPERATIONS

There was an increase in revenues, not including interest income, in the quarter ended January 31, 1992 as compared to the quarter ended January 31, 1991. The increase was due to a new licensing agreement with Bell Atlantic.

The Company realized net loss of \$92,942 for the quarter ended January 31, 1992 on total revenues of \$255,748. \$255,000 of such revenues resulted from operations. Income in the amount of \$748 was derived from interest on temporary investments.

The Company realized a net loss of \$271,180 for the quarter ended January 31, 1991.

General and administrative expenses for the quarters ended January 31, 1992 and 1991 were \$195,510 and \$99,099, respectively. Advertising and Marketing expenses for the quarters ended January 31, 1992 and 1991 were \$13,728 and \$4,869, respectively.

Research and development expenses for the quarters ended January 31, 1992 and 1991 were \$8,512 and \$21,541, respectively.

Interest expense for the quarters ended January 31, 1992 and 1991 were \$29,850 and \$35,244, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS Cont'd

OTHER MATTERS

Marketing Agreement

On December 1, 1989, the Company entered into an agreement with Strategic Marketing, a Division of World Perspective Communications, Inc., whereby Strategic Marketing would provide advertising and marketing services to the Company for a period of 13 months. Under the terms of the agreement, Strategic Marketing received a cash payment of \$20,000 and on December 18, 1989 was issued 71,500 shares of the Company's common stock restricted under SEC Rule 144 with rights to register such stock. As a result of issuance of these shares, additional paid-in capital and marketing expenses were increased by \$133,638 on a pro rata basis for eight months.

The Company suspended the agreement with Strategic Marketing for a period of ninety days effective May 1, 1990. No payments will be made nor will any advertising and marketing services be provided during the period of suspension.

Corporate Relations Services

On December 1, 1989, the Company entered into an agreement with the Strategic Relations Group, Inc. (Strategic) whereby Strategic would provide corporate relations services related to shareholder identification, shareholder list up-dating and shareholder relations. In addition, Strategic would provide mailings of Company's information to brokers and broker clients as well as provide communication contact in connection with telephone inquiries directed to the Company for a period of 12 months. Under the terms of the agreement, Strategic was issued 31,200 shares of the Company's restricted common stock subject to SEC Rule 144 with rights to register. In addition, three quarterly payments of \$15,000 each are to be made starting February 1990.

As a result of the issuance of the 31,782 shares, additional paid-in capital and marketing expenses were increased by \$58,822 on a pro rata basis for eight months.

The Company has suspended the agreement with the Strategic Relations Group, Inc. for a period of ninety days effective May 1, 1990. No payments will be made nor will any corporate relations services be provided during the period of suspension.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS Cont'd

NASDAQ Listing

NASDAQ transmitted a February 6, 1990 letter which advised the Company that a temporary exception to paragraph 1 (c) (3) of Part II of Schedule D of the NASDAQ Bylaws had been granted. The exception required the Company to file with the SEC and NASDAQ, on or before March 26, 1990, a Form 8K evidencing an equity infusion in an amount that will bring the Company into compliance.

On March 22, 1990, the Company was formally notified by the NASD that as of March 26, 1990 the exception and subsequent extensions will expire and the Company must be in compliance with all requirements necessary for continued inclusion on the NASDAQ system. The Company was unable to meet all the requirements and therefore is no longer included on the NASDAQ system. The Company is listed under the symbol TLTM on the NASD bulletin board quote system.

TELETIMER INTERNATIONAL, INC.
PART II
OTHER INFORMATION

- Item 1. Legal Proceedings
 Not Applicable
- Item 2. Changes In Securities
 Not Applicable
- Item 3. Defaults Upon Senior Securities
 Not Applicable
- Item 4. Submission of Matters to a Vote of Security Holders
 None during this quarter
- Item 5. Other Information
 Not Applicable
- Item 6. Exhibits and Reports on Form 8-K
 (a) Exhibits - None Required
 (b) Report - None

SIGNATURES

Pursuant to the requirements of The Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELETIMER INTERNATIONAL, INC.

Date: 7/24/1992

By:

R.J. Brown, Jr.
Robert J. Brown, Jr., President



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FORM 10Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the quarterly period ended January 31, 1992

☐ Transition report pursuant to Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 2-97045

10-1443*

WASTE TECHNOLOGY CORP.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

13-2842053

(I.R.S. Employer
Identification No.)

2 Lincoln Avenue

Rockville Centre, New York

(Address of Principal Executive Offices)

11570

(Zip Code)

(516) 536-1890

(Registrant's Telephone Number, Including Area Code)

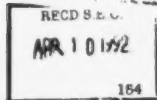
Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

At March 15, 1992, Registrant had outstanding 2,299,529 shares of its Common Stock.

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WASTE TECHNOLOGY CORP.

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WASTE TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	January 31, 1992 <u>Unaudited</u>	October 31, 1991 <u></u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 300,397	\$ 335,607
Marketable securities (Note 2)	2,476	6,297
Accounts Receivable	2,094,244	1,822,134
Costs & estimated earnings in excess of billings on uncompleted contracts (Note 1)	491,754	178,667
Notes receivable-officer & director	12,000	12,000
Inventories (Notes 1 and 4)	1,798,242	1,452,999
Prepaid expenses & sundry current assets	<u>61,882</u>	<u>90,362</u>
Total current assets	4,760,995	3,898,066
Other investments:		
Investment in TPST Technologies	<u>50,000</u>	<u>50,000</u>
	<u>50,000</u>	<u>50,000</u>
Property, plant & equipment-at cost (Notes 1 & 6)	2,388,745	2,364,726
Less accumulated depreciation and amortization	<u>743,493</u>	<u>688,849</u>
	<u>1,645,252</u>	<u>1,675,877</u>
Other assets:		
Loans to joint venture	168,602	148,602
Non-competition covenants	173,593	193,954
Goodwill less amortization	321,178	325,404
Other intangible & sundry assets, net	129,852	37,485
Deferred underwriting expenses	205,044	134,524
Notes receivable-officer & director	<u>1,513,454</u>	<u>1,430,901</u>
	<u>3,511,723</u>	<u>2,270,870</u>
Total assets	<u>\$ 8,967,970</u>	<u>\$7,894,813</u>

The accompanying notes are an integral part of the financial statements.

WASTE TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	January 31, 1992 <u>Unaudited</u>	October 31, 1991 <u></u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities:		
Loans payable - Banks	\$ 885,000	\$ 850,000
Accounts payable	1,902,046	923,119
Billing in excess of costs & estimated earnings on uncompleted contracts	48,779	8,475
Accrued liabilities	553,894	652,213
Accrued taxes payable	153,564	49,676
Customer deposits	34,167	44,499
Notes payable - officers & others	173,500	171,500
Current maturities of long-term debt	<u>190,671</u>	<u>152,351</u>
Total current liabilities	<u>3,941,621</u>	<u>2,851,833</u>
Long term debt	<u>307,917</u>	<u>386,609</u>
Minority interest in equity of subsidiary	<u>476,903</u>	<u>460,894</u>
Stockholders' equity		
Common Stock, par value \$.01, 25,000,000 shares authorized 2,275,587 issued and outstanding in 1992 and 1991	22,756	22,756
Preferred stock, par value \$.0001, 10,000,000 shares authorized none issued		
Additional paid-in capital	5,564,145	5,564,145
Retained earnings	<u>(1,017,137)</u>	<u>(1,069,765)</u>
	4,549,764	4,517,136
Less: Treasury stock (36,058 shares at January 31, 1992 and 34,658 shares at October 31, 1991 at cost)	78,235	71,659
Less: Investment in U.S. Environmental, Inc.	<u>250,000</u>	<u>250,000</u>
Total stockholders' equity	<u>4,241,529</u>	<u>4,195,477</u>
Total liabilities and stockholders' equity	<u>\$8,967,970</u>	<u>\$7,894,813</u>

The accompanying notes are an integral part of the financial statements.

WASTE TECHNOLOGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three months Ended January 31,	
	1992	1991
Net sales	\$2,213,532	\$1,484,904
Cost of sales	<u>1,451,180</u>	<u>918,179</u>
Gross Profit	<u>762,352</u>	<u>566,725</u>
Operating expenses:		
Selling	186,944	147,749
General and Administrative	<u>561,595</u>	<u>401,295</u>
	<u>748,539</u>	<u>549,044</u>
Operating Income	<u>13,813</u>	<u>17,681</u>
Other income (expenses):		
Interest and Dividends	27,998	39,760
Net unrealized gain on current marketable securities	-0-	66,303
Net realized gain on sale of marketable securities	5,345	440
Commissions & Sundry Income	44,367	12,360
Settlement of litigation	-0-	(95,000)
Interest expense	<u>(11,261)</u>	<u>(941)</u>
	<u>66,449</u>	<u>22,222</u>
Minority interest in income of consolidated subsidiary	<u>16,009</u>	<u>17,295</u>
Income before income taxes and extraordinary item	64,253	22,608
Income taxes	<u>33,471</u>	<u>18,175</u>
Income (loss) before extraordinary item	<u>30,782</u>	<u>4,433</u>
Extraordinary item - tax benefit from utilization of net operating loss carryforward	<u>21,846</u>	<u>(12,000)</u>
Net income	<u>52,628</u>	<u>\$ 16,433</u>
Earnings per share:		
Income before extraordinary item	\$.01	\$.004
Extraordinary item	<u>.01</u>	<u>.004</u>
Net income	<u>\$.02</u>	<u>\$.008</u>
Average number of shares outstanding	<u>2,240,229</u>	<u>2,161,863</u>

The accompanying notes are an integral part of the financial statements.

HYDRO TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK, PAR VALUE \$0.01, AUTHORIZED 20,000,000 SHARES		ADDITIONAL PAID-IN CAPITAL (DEBITED)	RESERVE FOR DEFECTY OR DEVELOPMENT STOCK (DEBITED)	RETAINED EARNINGS	TREASURY STOCK		TOTAL STOCKHOLDERS' EQUITY (DEBITED)
	SHARES ISSUED	PAR VALUE				NUMBER OF SHARES	COST	
BALANCE AT OCTOBER 31, 1980, RESTATED (SEE FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 10/31/81)	6,380,819	63,819	4,080,768	(2,932,297)	174,728			2,142,014
COMMON SHARES ISSUED TO EMPLOYEES PROFIT SHARING TRUST	1,520,000	15,000	100,000					165,000
SHARES ISSUED TO SHAREHOLDERS OF B.M. ENERGY SYSTEMS, INC. IN CONNECTION WITH THE ACQUISITION OF B.M. ENERGY SYSTEMS, INC.	14,688	146	(146)					0
EFFECT OF 1:4 REVERSE STOCK SPLIT EFFECTIVE 11/13/81	(8,922,888)	(89,224)	89,224		(19,129)	729,129		(19,129)
BALANCE AT OCTOBER 31, 1980	1,974,119	19,740	5,044,846	(2,932,297)	870,721			3,011,010
EXERCISE OF OPTIONS COMMON SHARES ISSUED TO PRESIDENT PURSUANT TO BOARD OF DIRECTORS APPROVAL	150,000	1,500	0					8,680
COMMON SHARES ISSUED TO U.S. ENVIRONMENTAL, INC. IN CONNECTION WITH THE ACQUISITION OF U.S. ENVIRONMENTAL, INC. COMMON STOCK ISSUED OVER PAR VALUE OF COMPANY COMMON SHARES	800,000	8,000	16,000					18,000
SHARES ISSUED TO SHAREHOLDERS OF B.M. ENERGY SYSTEMS, INC. COMMON SHARES ISSUED ON PURCHASE OF B.M. ENERGY SYSTEMS, INC. IN CONNECTION WITH THE ACQUISITION OF B.M. ENERGY SYSTEMS, INC.	1,000	10	345,000					245,000
COMMON SHARES ISSUED ON PURCHASE OF B.M. ENERGY SYSTEMS, INC. IN CONNECTION WITH THE ACQUISITION OF B.M. ENERGY SYSTEMS, INC.	100,000	1,000	49,000					50,000
EFFECT OF 1:4 REVERSE STOCK SPLIT EFFECTIVE 11/13/81	(563,280)	(5,632)	5,632		666,719	66,731	(45,137)	(45,137)
BALANCE AT OCTOBER 31, 1980	2,161,839	21,618	9,564,818	(2,932,297)	1,540,440	21,680	(45,137)	9,989,442
IN CONNECTION WITH THE ACQUISITION OF B.M. ENERGY SYSTEMS, INC.				2,932,297	(2,932,297)			
REDEMPTION OF INVESTMENT IN U. S. ENVIRONMENTAL, INC. AS A RESULT OF THE ACQUISITION OF B.M. ENERGY SYSTEMS, INC.				0	0		(1,388,837)	
ACQUISITION OF TREASURY STOCK COMMON SHARES ISSUED ON PURCHASE OF B.M. ENERGY SYSTEMS, INC. COMMON SHARES ISSUED TO B. M. ENERGY SYSTEMS, INC. COMMON SHARES ISSUED TO B. M. ENERGY SYSTEMS, INC.	481,896	4,819	180,196			51,900	(26,522)	(26,522)
COMMON SHARES ISSUED TO B. M. ENERGY SYSTEMS, INC. COMMON SHARES ISSUED TO B. M. ENERGY SYSTEMS, INC.	3,000	30	700					194,715
EFFECT OF 1:4 REVERSE STOCK SPLIT EFFECTIVE 11/13/81	(341,172)	(3,411)	3,411		317,092			750
BALANCE AT OCTOBER 31, 1981	2,279,887	22,788	9,864,148	0	0	24,680	(71,659)	4,198,477
ACQUISITION OF TREASURY STOCK AT INCOME					52,639	1,400	(6,576)	(6,576)
BALANCE AT JANUARY 31, 1982	2,279,887	22,788	9,864,148	0	0	26,080	(78,235)	4,241,529

(unaudited)

WASTE TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended January 31, 1992 and 1991
(Unaudited)

	1992	1991
Cash flows from operating activities:		
Net income	\$ 52,628	\$ 16,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Items not requiring (providing) cash included in income:		
Unrealized (gain) in marketable securities	-0-	(66,303)
Depreciation and amortization	58,036	48,046
Minority interest in (income) loss of subsidiary	16,009	17,995
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(272,110)	364,299
(Increase)/decrease in inventories	(345,243)	(230,315)
(Increase)/decrease in prepaid expenses and sundry current assets	(489,651)	(64,214)
(Increase)/decrease in other assets	(78,352)	(187,601)
Increase/(decrease) in accounts payable	978,927	244,316
Increase/(decrease) in accrued liabilities & other current liabilities	86,193	75,423
Increase/(decrease) in customer deposits	(10,332)	(356,679)
Total adjustments	100,181	(155,033)
Net cash (used in) operating activities	152,809	(138,600)
Cash flows from investing activities:		
Additions to property & equipment	(24,019)	(22,042)
(Decrease)/Increase in marketable securities	3,821	(143,579)
Other investments	-0-	(344,372)
Net cash (used in) investing activities	20,198	(509,993)
Cash flows from financing activities:		
(Increase) decrease in officer loans	(82,553)	(62,438)
Increase (decrease) in long-term liabilities	(78,692)	(12,557)

Purchase of treasury stock	<u>(6,576)</u>	<u>(40,265)</u>
Cash flows provided by (used in) financing activities	<u>(167,821)</u>	<u>(115,260)</u>
Net (decrease) in cash	(35,210)	(763,853)
Cash and cash equivalents at beginning of period	<u>335,607</u>	<u>986,863</u>
Cash and cash equivalents at end of period	<u>\$ 300,397</u>	<u>\$ 223,010</u>

Supplemental schedule of disclosure of cash
flow information

Cash paid during period for:

Interest	\$ 10,951	\$ 941
Income taxes	-0-	24,295

The accompanying notes are an integral part of the financial statements.

WASTE TECHNOLOGY CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its wholly owned and majority owned subsidiaries. Intercompany balances and material intercompany transactions have been eliminated in consolidation.

Minority Interest

The Company owned 83.7% of the outstanding shares of the subsidiary International Baler Corp. at January 31, 1992. The parent company theory has been applied in the presentation of the minority interest. Under the parent company theory, minority interest is separately stated as a liability on the consolidated balance sheet at an amount equal to the minority ownership percentage of the book value of the subsidiary's net assets. The minority interest in the consolidated income statement is equal to the minority ownership percentage of the subsidiary's realized net income or loss.

Inventories

Inventories of the subsidiaries are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. (See Note 4)

Percentage-of-Completion Method

Two subsidiaries, Ram Coating Technology Corp. and Eagle Tank Technology, Inc., use the percentage-of-completion method of accounting which recognizes income as work on a contract progresses. The amount recognized in a period is based upon the percentage calculated on the basis of the relationship of costs incurred to date to estimated total costs at completion. Under this method, the balance sheet includes as current assets the amount of costs and estimated earnings in excess of billings on uncompleted contracts. Current liabilities include billings in excess of costs and estimated earnings on uncompleted contracts.

Depreciation

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight line method for financial reporting and accelerated ACRS and MACRS method for income tax purposes. There is no material timing difference affecting the income statement or balance sheet and therefore no deferred tax credits or charges have been accrued. (See Note 6)

Cash and Equivalents

Cash and equivalents includes cash in bank, money market funds and cash on hand.

Goodwill

Goodwill in the amount of \$84,389 less accumulated amortization of \$6,329 represents the excess of the cost of acquiring net assets of Solid Waste and Recovery Systems, Inc. over the fair value of the net assets acquired (using the purchase method) at date of acquisition in 1990, and is being amortized on the straight-line method over a period of 20 years.

Goodwill in the amount of \$253,688 less accumulated amortization of \$10,570 represents the excess of the value of stock issued in acquiring net assets of RAM Industrial Coatings, Inc. and Eagle Tank, Inc. over the fair value of its net assets acquired (using the purchase method) at date of acquisition April 2, 1991, and is being amortized on the straight-line method over a period of 20 years.

Unamortized Non-Competition Covenant

The Company, on November 1, 1990, paid \$200,000 to the owners of Ram Industrial Coatings, Inc. as consideration for their agreement to refrain from competing with the Company or any affiliates for a period of two years after the termination of their employment agreements. This payment is being amortized on a straight-line basis over the term of the employment agreement plus two years. The amount of amortization charged to operations for the three months ended January 31, 1992 and 1991 was \$2,873 and \$10,000, respectively.

Patents

Patents and patent rights are being amortized over a 17-year period using the straight-line method, and are carried at cost, less accumulated amortization. Amortization charged to operations for the three months ended January 31, 1992 and 1991 was \$519 in each period.

NOTE 2 - MARKETABLE SECURITIES

At January 31, 1992 and October 31, 1991, the aggregate market value of current marketable securities exceeded their aggregate cost by \$252 and \$85,652 respectively, resulting in an unrealized gain of \$85,652 in the income statement for October 31, 1991. Current marketable securities had a cost of \$2,980 at January 31, 1992.

NOTE 3 - LOAN AND NOTES RECEIVABLE - OFFICER AND DIRECTOR

The Company has advanced \$218,464 to Leslie N. Erber as at January 31, 1992, which is repayable \$1,000 monthly with the balance payable October 31, 1992. The loan is non-interest bearing and the principal loan balances was \$165,909 at October 31, 1991. The Company has historically extended the due date on this loan and therefore it is classified as a non-current asset to the extent of the projected balloon payment.

On April 12, 1990, four individuals, including Leslie N. Erber, Chairman of the Board and President of the Company and Morton S. Robson, Secretary and Director of the Company entered into an agreement with a group of dissident shareholders to purchase an aggregate of 294,182 shares at a purchase price of \$4.00 per share. Leslie N. Erber and Morton S. Robson each purchased 134,591 shares of common stock and the other two individuals purchased an aggregate of 25,000 shares.

On July 15, 1991 the purchase of shares was finalized by the payment to the selling shareholders of the balance of the purchase price plus accrued interest. The financing of the transaction was paid with funds borrowed from the Company with the unanimous approval of the Company's Board of Directors. The four individuals executed promissory notes in favor of the Company payable in three annual installments due July 15, 1992-1994 plus accrued interest from July 15, 1991 at the rate of 9% per annum. The debt is secured by a lien on the 294,182 shares of the Company's common stock and a personal guarantee of each borrower to the extent of their loan, the guarantee of Robson & Miller, to the extent of Mr. Robson's loan and Mr. Erber delivered to the Company 156,000 of his shares of the Company's common stock as additional collateral for his and Mr. Robson's loans. The following represents an analysis of the notes receivable and accrued interest at January 31, 1992:

	7/15/91 New Note <u>Principal</u>	01/31/92 Accrued <u>Interest</u>	Total <u>Note</u>
Leslie N. Erber	\$ 569,292	\$ 27,753	\$ 597,045
Morton S. Robson	569,292	27,753	597,045
Howard Bodner	52,872	2,578	55,450
Jordan Erber	<u>52,872</u>	<u>2,578</u>	<u>55,450</u>
	\$1,244,328	\$ 60,662	\$1,304,990

The Company expects that a primary source for repayment of the above notes will be from the sale of the collateralized shares of the Company stock. In the event that the Company must foreclose on the collateral, stockholders equity will be diminished to the extent of the fair market value of stock at the time of foreclosure.

NOTE 4 - INVENTORIES

Inventories consisted of:

	<u>January 31.</u>	
	<u>1992</u>	<u>1991</u>
Finished products	\$ 295,222	\$ 221,133
Work in process	315,884	175,781
Raw materials	<u>1,187,136</u>	<u>876,964</u>
	\$1,798,242	\$1,273,878

NOTE 5 - OTHER INVESTMENTS

Real Estate Venture

In December 1990, the Company formed a wholly-owned subsidiary, Waste Tech Real Estate Corp. ("WT Real Estate"), for the purpose of having that corporation enter into a joint venture with a non-affiliated company, Rock-Tech Realty Corp. ("RT"), to purchase a parcel of land in Far Rockaway, Queens, New York and to build residential single family homes on the property. RT had previously entered into a contract to purchase the property for \$625,000, \$50,000 being paid on the execution of the contract and the balance to be paid \$200,000 on closing and \$375,000 by a purchase money mortgage to the seller. RT has assigned the contract to the joint venture.

WT Real Estate has a twenty-one (21%) percent interest in the profits and losses of the joint venture. As of January 31, 1992, the Company had committed to fund up to \$175,000 for its share of loans and loaned the sum of \$135,252 to the joint venture on behalf of WT Real Estate. Management states that it does not believe that it will be required to advance funds in excess of such commitment. WT Real Estate has a mortgage lien on the property as security for all sums it advances to the joint venture except that mortgage shall be subordinated to any purchase money mortgage or construction loan mortgage. The Company is to receive interest @10% per annum. As at October 31, 1991, no construction has commenced, but architectural fees and filing fees have been paid. As at March 31, 1992, accrued interest in the amount of \$13,350 is included in the total of \$168,602, shown on the Balance sheet as loans to joint venture.

U.S. Environmental

In March 1990, the Company entered into an agreement with U.S. Environmental, Inc. ("U.S.E.") whereby the Company acquired 500,000 shares of the common stock of U.S.E. which is publicly traded in the Over-The-Counter market in exchange for 125,000 shares of the Company's common stock. U.S.E. is an environmental services company which has a world-wide license of a process developed by Geotech Development Corporation which is designed to convert hazardous solid waste such as incinerator ash and asbestos into inert, non-toxic materials usable by and saleable to industrial, commercial and public-sector customers. The agreement provides that in the event that, for any reason, a plant capable of converting asbestos into an inert, non-toxic substance at the rate of 50 tons per day is not operating at 75% of capacity within two (2) years from the date of the agreement, the Company, shall have the right, at its option, to reacquire the shares if transferred to U.S.E. pursuant to the agreement. The agreement further provides that each party to the agreement grants to management of the other party an irrevocable proxy to vote the shares so transferred for a period of five (5) years. The Company intends to exercise its put to reacquire the shares from U.S.E. Therefore, for financial statement purposes, the Company is treating its investment as a reduction of stockholders' equity in the amount of \$250,000.

TPST Technologies

On 12/31/90, the Company purchased a one-unit interest in a limited partnership called TPST Technologies for \$50,000. The total capitalization of this partnership is \$2,500,000, which results in a 2% ownership interest per unit. Each unit consists of 500 shares of TPST Soil Recyclers of South Carolina and 2,000 warrants of Thermo Process Systems, Inc. which expires on 12/21/95.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment - at cost, less accumulated depreciation:

	<u>January 31,</u> <u>1992</u>	<u>October 31,</u> <u>1991</u>
Land	\$ 135,000	\$ 135,000
Buildings and improvements	\$ 740,069	\$ 674,494
Leasehold improvements	\$ 132,495	\$ 164,713
Machinery and equipment	\$1,017,397	\$1,018,066
Furniture and fixtures	\$ 164,779	\$ 164,828
Vehicles	<u>\$ 199,005</u>	<u>\$ 207,625</u>
	2,388,745	2,364,726
Less: accumulated depreciation	<u>743,493</u>	<u>688,849</u>
	\$1,645,252	\$1,675,877

Depreciation expense charged to operations was \$54,644 in 1992 and \$36,472 in 1991 respectively.

NOTE 7 - INCOME TAXES

The Company files federal consolidated tax returns with its subsidiaries and has an unused consolidated net operating loss carryforward of \$1,100,000 at October 31, 1991 and \$1,535,500 at October 31, 1990. Waste Technology Corp. also has a separate year net operating loss carryforward in the amount of \$234,000. International Baler Corporation has separate year general business credit and research credit carryforwards. The separate year carryforwards are attributable to tax periods prior to filing as members of a consolidated group.

Income tax expense in 1992 and 1991 contains a charge in lieu of federal income taxes that would have been required to be paid had the Company not been able to utilize operating loss carryforwards. The tax benefit resulting from such utilization is reflected as an extraordinary item in 1992 and 1991, respectively.

NOTE 8 - CONTINGENT LIABILITIES AND COMMITMENTS

In 1987, Litigation was commenced against the Company, its president and secretary in Marion County, Florida. This litigation was settled by the Company releasing its lien on equipment located at the Marion County landfill and a payment of \$95,000.

Operations at the landfill site were stopped and the Company paid \$1,900,000 to M&T Bank in satisfaction of its guarantee of a loan made by the bank to the equipment manufacturer, GGC, Inc. As a result of the payment of that loan by the Company, it became subrogated to the claim of the M&T Bank against GGC and received all of M&T Bank's interest in the collateral pledged by GGC as security for the loan including claims against the limited partners of Urban Waste Disposal Associates. It is the opinion of counsel that there is a valid claim against GGC on the note and loan agreement because GGC failed to manufacture a completed system as it had promised and the guarantee by the Company was made in reliance upon GGC's representation that the system would be completed. In the opinion of counsel, it is more probable than not that a judgment in favor of the Company will ultimately be recovered.

In addition to its rights against GGC and Urban Waste Disposal Associates, the Company has a claim against Ocala Waste Disposal and its limited partners on a note in the amount of \$2,214,000 executed by Ocala Associates to GGC and guaranteed by the limited partners of Ocala. As a result of the Company's payment of that loan it has the right to collect the note and enforce the guarantees. In the opinion of counsel it is more probable than not that a judgment in favor of the Company will ultimately be recovered on this claim and that the value of the aforementioned claims is at least \$1,000,000 in the aggregate. The Company does not recognize any carrying value in the balance sheet with regard to this claim receivable.

The Company is also a defendant in the following actions:

Waste Technology Corp. Litigation

(i) Spada

On September 13, 1986, an action was commenced against the Company, Leslie N. Erber, the President, Morton S. Robson, the Secretary, Alan Morrison, a Director, Pericles Constantinou, the Company's former President, and certain former directors in the Supreme Court of the State of New York by Joseph Spada, Joseph Parziale and Marie Parziale as Administratrix of the Estate of Vincent Parziale. Plaintiffs, the holders of 10% of the stock of B.W. Energy Systems East, Inc. ("BWE"), an inactive subsidiary, a majority of the stock of which is owned by the Company, allege that they are entitled to 10% of any income earned by the Company from the sales of a pyrolysis system for installation at a landfill site in Marion County, Florida. They also claim that they have been damaged by the Company's omission to mention an agreement with them in its prospectus in 1985 and seek damages of approximately \$18,500,000 and punitive damages of \$60,000,000.

Counsel is of the opinion that this action has little merit, stating that the agreement relied upon by Plaintiffs related to a different system from the one sold, and secondly, that the system was never completed by the purchaser and has been abandoned and the Company never earned any money by virtue of the sale. It is the Company's position that this claim is without merit.

Plaintiffs have taken no action for more than one (1) year in this matter, which is still in the pre-trial discovery stage.

(ii) Hilde Basch Fremont

The Company, its President and Urban Waste Disposal, Inc., the President of which was Leslie N. Erber, as well as, GGC, Inc. and other nonaffiliates are defendants in an action commenced on October 25, 1988 in the United States District for the Southern District of New York by limited partners of a partnership which purchased a pyrolysis system marketed by the Company as agent for GGC, Inc., a

California corporation. The Plaintiffs claim that there were misrepresentations in the offering memorandum pursuant to which they purchased their limited partnership interests for an aggregate of \$1,800,000. The Company states that it had no involvement with the offering memorandum or the limited partnership other than as set forth above. The amended complaint in the action consists of four counts, only one of which names the Company or its President. That count, which is asserted against all of the defendants including the Company and its President, alleges RICO violations and seeks treble damages for unspecified compensatory damages, as well as punitive damages and attorney's fees. Subsequently, the Plaintiffs settled their claims against GCC for \$1,500,000, and management believes that this will substantially reduce the amount of damages that the Company may suffer, if any, in this action.

The Company and Counsel believe that the RICO claim asserted against it is without merit and has filed a motion to dismiss this claim since there is no relationship between the Company and the limited partnership interests purchased by the plaintiffs. It is the Company's position that it played absolutely no role in the sale of those securities, which are the only securities identified in the amended complaint. This motion has been fully briefed and is now pending before the Court.

(iii) Spier

The Company, Leslie W. Erber, Morton S. Robson, Pericles Constantinou (the Company's former President), Orval Gould (the principal of GGC, Inc.) and others, are defendants in an action commenced on March 10, 1989 by William Spier and others, in the United States District Court, Southern District, New York. The plaintiffs are partners in a partnership which purchased certain equipment from the Company for use at the landfill in Marion County, Florida. The President of the Company was the general partner of the partnership. The Company, which was merely acting as an agent, had purchased the equipment from GGC, Inc. The complaint consists of five causes of action, only three of which are asserted against the Company, its President and its Secretary. The complaint alleges numerous misrepresentations in, and omissions of material facts from, the offering memorandum pursuant to which they purchased their partnership interests; asserts that the Company was a controlling person of that partnership; and seeks rescission of plaintiffs' purchase of limited partnership interests and the return of their \$1,000,000 aggregate capital contribution, together with interest from 1983.

and attorneys' fees. The Company and Counsel believe that the claims asserted against it are without merit and that even if the allegations of the complaint were true, the plaintiffs have no recourse, as a matter of law, against the Company since the Company did not have anything to do with the preparation of the offering memorandum or the sale of interests in that limited partnership.

The Company has filed a cross-claim against GGC, Inc. and others in this action to recover its claim receivable of approximately \$2,500,000, which the Company has not valued for purposes of its balance sheet.

Counsel to the Company in the above mentioned three (3) actions is Robson & Miller, and Morton S. Robson, the Secretary and a Director in the Company is the senior partner of Robson & Miller. Mr. Robson is also a substantial stockholder in the Company. Conflicts of interest may arise as the result of Mr. Robson's relationship with the Company.

(iv) Wade G. Davis

In November, 1987, Marine Midland Bank ("Marine") commenced an action against Wade G. Davis, II, entitled Marine Midland v. Wade G. Davis, in the Superior Court of California, County of Los Angeles (Case No. 199346), and alleged that Davis was in default in payment of a past due promissory note in the amount of \$340,000 in connection with a loan procured by Davis for the purchase of a limited partnership interest. Mr. Davis denied liability and alleged that he never did procure such loan and never purchased a partnership interest.

On January 3, 1988, Davis cross-claimed against Marine, Leslie W. Erber, Urban Waste Disposal Associates of Marion County, the Company and 25 unnamed defendants, and sought indemnification from any liability he might suffer as the result of the claim made by Marine in the main action, \$5,000,000 in punitive damages and attorney's fees. Mr. Davis alleged that although his agreement to purchase certain limited partnership interests was voided, his down payment returned to him, and his application for a \$320,000 loan from Marine Bank for the balance of such capital contribution was rejected by Marine, Marine is suing him for the amount of such loan. He further alleged that Mr. Erber and one of his affiliated entities obtained the proceeds from such loan.

Management believes that the claim against the Company is frivolous. Mr. Erber categorically denies the allegations of the cross-claimant. Counsel to the Company refrains from expressing a judgment as to the outcome of this litigation, but states that no inference should be drawn from the absence of such judgment that the Company will not prevail in the litigation.

A motion to dismiss the proceeding for lack of prosecution by Marine has been made by the Court per se, and such motion is still pending.

(v) Cavagnaro v. Waste Tech

In November 1991 an action was commenced by George Cavagnaro, the estate of Nicholas J. Cavagnaro, Jr. and Pauline Cavagnaro against the Company in the Supreme Court of the State of New York, New York County (Index No. 64128/91). Plaintiffs have alleged that the Company breached a non-competition agreement by the failure to make payments as required therein. Plaintiffs are seeking damages of approximately \$230,000, together with interest and costs and disbursements of the action.

The Company has filed an answer to the complaint asserting numerous affirmative defenses, and has asserted counterclaims which it believes are meritorious.

International Baler Corp. Litigation (IBC)

(i) Burkett

On January 25, 1991 plaintiff Danny Burkett commenced an action for unspecified damages in the Circuit Court, 11th Judicial Circuit, Dade County, Florida, and alleged that he suffered personal injuries as a result of a defective baler manufactured by IBC. This action is being defended by Lexington Insurance Co., and the policy limit is \$1,000,000 with a \$50,000 deductible. The insurer has expressed the opinion that the deductible will be exhausted and that it cannot state for certain whether the claim would exceed the policy limits. A provision for settlement loss to the extent of the policy deductible, \$50,000, has been provided for in the financial statements.

(ii) Tibb

IBC is a third party defendant in an action brought by Tibb Shredding Services, Inc. v. The McHackin Corporation and Charles River Recycling, brought in Norfolk Superior Court in Massachusetts in 1989, alleging extensive undocumented damages from late delivery of two baling machines purchased from Charles River which had purchased them from IBC. Charles River seeks indemnification from IBC for any such damages. Counsel to IBC states that there is no written or implied indemnification agreement and that there is strong evidence that IBC was not in breach of any agreement with Charles River. Counsel further states that it is not in a position to estimate the amount or range of potential loss,

(iii) Nunez

In 1985, Manuel Nunez filed an action against IBC in the Superior Court of the State of California, County of Los Angeles, Case No. RW-05667. Nunez claims he was injured as a result of IBC's negligence and improper design in connection with IBC's manufacturing of a paper packing machine. The claim is being defended by IBC's insurance carrier. The policy has a \$500,000 limit, with a \$10,000 deductible.

The insurance carrier's counsel states that no evaluation or determination has been made regarding liability. Counsel indicates further that the file has been inactive.

(iv) Santos

IBC is a defendant in an action brought by Robert Santos, an employee of Pepsi Cola in Brooklyn, New York who was injured by a baler manufactured by IBC. Santos had taken the baler apart and replaced the door retarder improperly, revising the functions of the door mechanism. The action is being defended by IBC's insurance carrier. The policy has a \$500,000 limit with a \$10,000 deductible with regard to bodily injury and property damage.

The insurance carrier's counsel states that the above-captioned lawsuit remains pending with settlement anticipated in the near future. Defense counsel assesses liability with regard to IBC at approximately 50%. Settlement value of this matter has been placed within the range of \$50,000 to \$75,000. Currently, the insurance carrier maintains a reserve of \$60,000, and views this as adequate. It anticipates that the deductible will apply. This has been provided for in the financial statements.

(v) Flynn

Plaintiff Edward Flynn has filed a claim against IBC for an injury which occurred because of the use of a baler machine. Currently, the insurance carrier, Lexington Insurance Company, has established a reserve of \$7,500 and referred the matter to an adjuster for further investigation, but cannot elaborate on the extent of injuries until receiving information from the adjuster. A \$50,000 deductible would apply.

(vi) Sunnel

This action was also referred by Lexington Insurance Company to adjusters for further investigation. At this time, the insurance carrier has very little information to provide.

Consolidated Baling Machine Co., Inc. Litigation (CBM)

Ancrum

On July 2, 1991 plaintiff Adrian Ancrum commenced an action in the Supreme Court, Kings County, New York, against CBM and an entity identified as Wastetech, Inc. seeking \$3,000,000. Plaintiff has alleged personal injuries suffered as the result of a defective baler sold by the corporation from which CBM acquired its assets. Consolidated has denied liability on the grounds that it neither manufactured nor sold the baler which allegedly caused the injuries. No insurance coverage exists for this claim. A motion to dismiss for lack of jurisdiction is pending. Counsel to CBM is of the opinion that the liability of CBM to the plaintiff is remote.

NOTE 9 - RELATED PARTY TRANSACTIONS

International Baler Corporation, Consolidated Baling Machine Co., Inc., Solid Waste and Recovery Systems, Inc., Waste Tech Real Estate Corp., Waste Technology Leasing, Consolidated Baler Sales and Service, Inc., RAM Coating Technology Corp. and Eagle Tank Technology Corp. are subsidiaries of Waste Technology Corporation. The parent company owns 83.7% of the common stock of the International Baler Corporation and 100% of the outstanding common stock of all other subsidiaries.

In December of 1990, the Company formed two wholly owned subsidiaries, Waste Tech Real Estate Corp. and Consolidated Baler Sales and Service, Inc.

Waste Tech Real Estate Corp. was formed for the purpose of having that corporation enter into a joint venture with a non-affiliated company, Rock-Tech Realty Corp., to purchase a parcel of land in Far Rockaway, Queens, New York and to build residential single family homes on that property.

Consolidated Baler Sales and Service, Inc. was formed for the purpose of conducting business in the New York City area, selling baling equipment on behalf of International Baler Corp., and Consolidated Baling Machine Company, and providing parts and services to new customers and for existing owners of balers sold by these companies and other manufacturers.

In April of 1991, the Company formed two wholly-owned subsidiaries, RAM Coating Technology Corp. and Eagle Tank Services, Inc. These subsidiaries acquired the assets and selected liabilities of RAM Industrial Coatings, Inc. and Eagle Tank Services, Inc.

NOTE 10 - EARNINGS PER SHARE

Earnings per share amounts are computed based on the weighted average number of shares actually outstanding. The number of shares used in computation were 2,240,229 in 1992 and 2,161,863 in 1991.

NOTE 11 - STOCKHOLDERS' EQUITY

On November 13, 1991, pursuant to the one for four (1:4) reverse stock split of the common stock of the Company, an amount equal to the par value of the common shares reversion was transferred from the common stock account to additional paid-in capital. This transfer has been reflected in the consolidated statement of stockholders' equity for the year ended October 31, 1991. All references to number of shares, except shares authorized, and to per-share information in the consolidated financial statements have been adjusted to reflect the reverse stock split on a retroactive basis.

NOTE 12 - LETTER OF INTENT

The Company has received a letter of intent dated June 12, 1991, as amended on December 17, 1991, from Lew Lieberbaum & Co., Inc. for a public offering of the Company's Common Stock and Warrants, to raise gross proceeds of \$4,000,000, together with an over-allotment option to raise an additional \$600,000, on a "firm commitment" basis. The Company has also agreed to retain Lew Lieberbaum & Co., Inc. as a financial consultant for a period of two (2) years in return for payments of \$3,000 per month for such two (2) year period.

NOTE 13 - UNAUDITED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended January 31, 1992 are not necessarily indicative of the results that may be expected for the year ended October 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto contained herein.

WASTE TECHNOLOGY CORPORATION & SUBSIDIARIES

ITEM 2 - Management's Discussion and Analysis of Financial

Condition and Results of Operations

Financial Condition

Working capital decreased \$226,859 for the three months ended January 31, 1992, from \$1,046,233 to \$819,374. The primary causes for the decrease were significant expenditures made in connection with the year-end audit and preparation for the upcoming securities offering, combined with a reorganization of operations at the subsidiary RAM Coating Technology, Inc. These expenditures are believed by Management to be of a non-recurring nature.

Results of Operations

Consolidated sales increased \$728,626, or 49%, for the three months ended January 31, 1992, compared to the same period in 1991. The primary cause of this increase was the inclusion in the 1992 figures of the subsidiaries RAM Coating Technology, Inc., and Eagle Tank Technology, Inc., which were acquired during the second quarter of 1991. The sales of these two subsidiaries in the current quarter totaled \$621,777. Gross profit for the first quarter of 1992 was 34.4%, down from 38.1% for the same period in 1991. The primary cause of this decrease was narrower margins in the new subsidiaries than has historically been the case for the baler divisions.

Operating expenses increased \$199,495, or 36.3%, for the three months ended January 31, 1992, compared to the same period in 1991. Overhead of the subsidiaries acquired in the second quarter of 1991 primarily accounted for this increase.

The Company showed higher commissions and sundry income for the three months ended January 31, 1992, compared to the same period in 1991, primarily due to higher sales and resultant commissions from the Solid Waste and Recovery Systems subsidiary.

Earnings per share for the three months ended January 31, 1992 were \$.02 per share, compared with \$.006 per share for the same period in 1991.

WASTE TECHNOLOGY CORP. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

(ii) *Hilde Basch Fremont*

The Company, its President and Urban Waste Disposal, Inc., the President of which was Leslie W. Erber, as well as, GOC, Inc. and other nonaffiliates are defendants in an action commenced on October 25, 1988 in the United States District for the Southern District of New York by limited partners of a partnership which purchased a pyrolysis system marketed by the Company as agent for GOC, Inc., a California corporation. The Plaintiffs claim that there were misrepresentations in the offering memorandum pursuant to which they purchased their limited partnership interests for an aggregate of \$1,800,000. The Company states that it had no involvement with the offering memorandum or the limited partnership other than as set forth above. The amended complaint in the action consists of four counts, only one of which names the Company or its President. That count, which is asserted against all of the defendants including the Company and its President, alleges RICO violations and seeks treble damages for unspecified compensatory damages, as well as punitive damages and attorney's fees. Subsequently, the Plaintiffs settled their claims against GOC for \$1,500,000, and management believes that this will substantially reduce the amount of damages that the Company may suffer, if any, in this action.

The Company and Counsel believe that the RICO claim asserted against it is without merit and has filed a motion to dismiss this claim since there is no relationship between the Company and the limited partnership interests purchased by the plaintiffs. It is the Company's position that it played absolutely no role in the sale of those securities, which are the only securities identified in the amended complaint. This motion has been fully briefed and is now pending before the Court.

(v) *Cavagnaro v. Waste Tech*

In November 1991 an action was commenced by George Cavagnaro, the estate of Nicholas J. Cavagnaro, Jr. and Pauline Cavagnaro against the Company in the Supreme Court of the State of New York, New York County (Index No. 64128/91). Plaintiffs have alleged that the Company breached a non-competition agreement by the failure to make payments as required therein. Plaintiffs are seeking damages of approximately \$230,000, together with interest and costs and disbursements of the action.

The Company has filed an answer to the complaint asserting numerous affirmative defenses, and has asserted counterclaims which it believes are meritorious.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WASTE TECHNOLOGY CORP.

By: 29L
Lesile W. Erber,
President (Chief Executive
Officer) and Treasurer
(Principal Financial and
Accounting Officer)

Dated: April 8, 1992

(Manually signed)

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

REC'D S.E.C.

MAR 12 1992

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☒ Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended January 31, 1992

☐ Transition report pursuant to Section 13 or 15(d) of the
Securities Act of 1934

For the Transition period from _____

PROCESSED BY

COMMISSION FILE NUMBER 0-1928

12 — 12 '92

Wellington Hall, Limit

(Exact name of Registrant as specified) Q-Data Corp. - St. Petersburg, FL

North Carolina

56-0815012

L54

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Route 1, U.S. Highway 29 and 70, Lexington, N.C. 27292

(Address of principal executive offices)

(704) 249-4931

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the Registrant (1) has filed
all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or
for such shorter period that the Registrant was required to file
such reports), and (2) has been subject to such filing
requirements for the past 90 days.

YES X

NO _____

Indicate the number of shares outstanding of each of insurer's
classes of common stock, as of the latest practicable date.

CLASS

Number of Shares

Date

Common Stock

1,681,137

January 31, 1992

WELLINGTON HALL, LIMITED AND SUBSIDIARIES

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Item 1 - Financial Statements

WELLINGTON HALL, LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	ASSETS	QUARTER ENDED JANUARY 31, 1992	YEAR ENDED APRIL 30, 1991
Current Assets:			
Cash on Hand		\$ 300	\$ 300
Cash in Demand Deposits		44,873	10,998
Accounts Receivable-Trade		757,176	950,014
(Less, Allowance for Doubtful Accounts)		(31,535)	(28,759)
Notes Receivable-Officer		104,000	-
Inventories		4,167,566	3,665,075
Prepaid Expenses		115,319	166,088
		5,157,679	4,763,716
Property, Plant and Equipment:			
Cost		8,530,464	2,506,512
Less Accumulated Depreciation		(786,887)	(678,762)
		1,743,577	1,827,750
Other Assets		84,180	82,485
		\$ 6,985,436	\$ 6,673,951
		*****	*****
	LIABILITIES		
Current Liabilities:			
Current Maturities of Long-Term Debt		\$ 389,629	\$ 265,754
Notes Payable/banks		1,308,051	1,164,238
Accounts Payable		689,304	637,236
Customer Deposits		67,526	28,946
Other Current Liabilities		246,495	199,418
		2,621,005	2,106,692
Noncurrent Liabilities:			
Long-Term Debt, less Current Maturities		1,475,111	1,686,140
Deferred Compensation Accrual		114,000	96,000
		1,589,111	1,782,140
		*****	*****
	STOCKHOLDERS' EQUITY		
Common Stock; Authorized 6,000,000 Shares; no par; Stated Value- 64; Shares Issued and Outstanding 1992 (1,481,127) and 1991 (1,501,127)		6,724,549	6,004,549
Amount less than stated value paid in for common stock (common stock discounts)		(3,677,918)	(3,101,918)
Preferred stock; authorized stock 5,000,000 shares 65 par; no shares issued and outstanding		3,047,531	2,903,531
		-	-
Cumulative translation adjustments		(751,827)	(730,735)
Retained Earnings		479,616	612,123
Total Stockholders' Equity		2,775,380	2,784,919
		*****	*****

WELLINGTON HALL LIMITED, AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended January 31		Nine Months Ended January 31	
	1992	1991	1992	1991
Revenues:				
Sale of furniture	\$ 1,430,592	\$ 1,447,376	\$ 4,494,107	\$ 4,316,146
Other income(expense)	1,421	42,205	7,001	61,356
	<u>1,440,013</u>	<u>1,489,581</u>	<u>4,501,108</u>	<u>4,377,502</u>
Costs and expenses:				
Cost of furniture sold	1,024,298	1,020,584	3,310,044	3,156,639
Other operating, selling, general and administrative expenses	333,075	334,639	1,012,949	995,603
	<u>1,357,373</u>	<u>1,355,223</u>	<u>4,322,993</u>	<u>4,152,242</u>
Income(loss) from operations	82,640	134,358	178,115	225,260
Other deductions:				
Interest expense-Short term	45,187	22,310	127,790	39,583
Interest expense-Long term	32,709	33,011	162,612	131,124
	<u>77,896</u>	<u>55,321</u>	<u>290,402</u>	<u>270,707</u>
Income (loss) before income taxes	(15,256)	79,037	(112,287)	154,553
Income taxes	4,900	(185)	13,100	3,600
Net income(loss)	<u>\$ (20,156)</u>	<u>\$ 78,852</u>	<u>\$ (99,187)</u>	<u>\$ 158,153</u>
Earnings (loss) per share of common stock:				
Primary and assuming full dilutions:				
Net income(loss) per common share	\$ (.01)	\$.03	\$ (.00)	\$.01
Average shares of common stock outstanding	1,501,137	1,501,137	1,501,137	1,501,137
Fully diluted *	1,624,442	1,627,610	1,620,199	1,627,610

Notes to consolidated financial statements are an integral part hereof.

WELLINGTON HALL, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended January 31	
	1992	1991
Cash flows from operating activities:		
Net income(loss)	\$ 112,507	\$ 10,865
Noncash expenses(income) included in net income:		
Depreciation	110,112	163,301
Increase in deferred compensation	18,000	18,000
Increase(decrease) in deferred income taxes		
Changes in assets and liabilities:		
(Increase)decrease in accounts receivable, net	90,766	(302,509)
(Increase)decrease in inventories	(515,619)	(303,489)
(Increase)decrease in prepaid expenses	50,651	(61,188)
(Increase)decrease in other assets	(1,995)	(2,092)
Increase(decrease) in accounts payable, customer deposits and other current liabilities	248,699	1,707
Net cash (used for)provided by operating activities	(131,893)	(475,405)
Cash flows from investing activities:		
Purchase of property and equipment	(42,015)	(415,265)
Cash flows from financing activities:		
Proceeds from Capital Stock Issue	144,000	-
Proceeds from long-term borrowings	-	588,750
Proceeds from short-term borrowings	1,419,830	1,330,204
Payments on long-term debt	(87,134)	(73,128)
Payments on short-term debt	(1,274,113)	(883,917)
Net cash provided by financing activities	260,571	961,909
Effect of exchange rate changes on cash	5,212	(39,409)
Net increase(decrease) in cash	33,875	11,830
Cash, beginning of periods	11,290	10,254
Cash, end of periods	\$ 45,173	\$ 22,184
Cash paid during the periods for:		
Income taxes	\$ 17,281	\$ 39,731
Interest	\$ 299,113	\$ 210,720

Notes to consolidated financial statements are an integral part hereof.

ITEM I. CONTINUED

WELLINGTON HALL, LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company for the interim period presented.
2. The results of operation for the nine-month period ended January 31, 1992 and January 31, 1991, are not necessarily indicative of the results to be expected for the full year.
3. Promotional expenses are charged in as incurred.
4. The Company takes a physical inventory at the end of the second quarter (October 31) and at year-end (April 30). At the end of each month and at the end of the first quarter (July 31) and the third quarter (January 31), inventories are adjusted to purchases, production and shipments.
5. The financial statements of the Company's foreign subsidiary, Muebles Wellington Hall, S.A., have been translated into U.S. dollars in accordance with FASB Statement No. 52. All balance sheet accounts have been translated using the current ("spot") exchange rates at the balance sheet date (5.4 Lempiras to 1 U.S. Dollar). Income statement amounts have been translated using the weighted average exchange rate for the period (5.34 Lempiras to 1 U.S. Dollar). The gains and losses resulting from the change in exchange rates during the quarter have been reported separately as a component of stockholders' equity entitled "Cumulative Translation Adjustments". Net currency transaction gains or losses which occur during the quarter are included in net earnings.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's working capital at the beginning of the current fiscal year was \$2,656,824 while the ratio of current assets to current liabilities was 2.3 to 1. At the end of the third quarter of the fiscal year, working capital decreased by \$120,150 to \$2,536,674, while the ratio of current assets to current liabilities was lowered to 2.0 to 1. Although total current assets have increased by \$393,963 to \$5,157,679, total current liabilities increased by a larger amount, \$514,113 to \$2,621,005. During the second quarter, the Company's Honduran subsidiary, Muebles Wellington Hall, SA(MWH), increased bank borrowings to finance certain capital expenditures and higher inventories needed to meet increased production levels and to relieve the strain on the parent company to provide working capital for foreign operations. In addition, current maturities of long-term debt increased approximately \$124,000 because of the second scheduled semi-annual payment due each October 31, on the loan with the Overseas Private Investment Corporation (OPIC). Accounts payable have increased as a result of the increased purchases of manufacturing supplies by the subsidiary, Wellington Hall Caribbean Corporation(WHCC), for subsequent shipment to the Honduran subsidiary for use in its production line. The parent Company has also slowed its payments to vendors because of the poor cash flow from operations resulting in a higher payable level.

Accounts receivable decreased by \$195,624 or 21.2% and the turnover rate decreased to 44 days as compared to 63 days at the end of fiscal year 1991. This decrease is the result of the collection of several older, larger accounts and continued efforts to improve collections. Receivables are sound and collectible and the reserve for doubtful accounts is adequate to cover potential losses.

Inventories increased by approximately \$502,000 or 13.7% over that reported at fiscal year end. The entire increase can be attributed to foreign operations with its production of a proprietary line of bedroom furniture beginning in July, 1991 and complimentary dining room furniture which began shipping in late February, 1992. Additionally, wood inventories are higher during this time of year due to the seasonality of log production in Honduras. The period, December to March, is the time when natural reseedling occurs and no harvesting is allowed. This makes it necessary to build up a larger supply of wood than normal to prevent lumber shortages during this period. Domestic inventory levels dropped by approximately \$197,000 from fiscal year-end figures, the result of curtailed purchasing and production brought on by the recession that plagues the

economy.

The Company's outlay for capital improvements, all expended on the Company's Honduran facilities, was approximately \$42,500. Plans for further expansion or capital improvement, both foreign and domestic, have been essentially suspended due to the current recession.

The Company plans to meet its interim cash requirements through cash flow from operations and use of both domestic and foreign lines of credit. At January 31, 1992 the Company had approximately \$225,000 available from Lexington State Bank (LSB), its domestic bank. The foreign subsidiary had available approximately \$44,400 from its primary foreign bank lender, Bank of Honduras, a subsidiary of Citibank and approximately \$130,000 from its secondary foreign bank lender, Banchasa, at January 31, 1992. The foreign bank lines although available are not desirable as they are required to be paid down on an on-going basis and the funding is burdensome. On April 30, 1992, WHCC is scheduled to begin repayment of the debt with OPIC, the first installment being \$123,875. Management believes cash flow from operations will be inadequate to meet this year-end need. Also, additional borrowings on the lines of credit will only delay the problem another six months til the next semi-annual payment is due. Given these facts, management has asked OPIC to extend the grace period for nonpayment of principal for an additional year to April 30, 1993. OPIC has not had time to respond to this request at the time of this filing. In addition, management has approached LSB about restructuring the debt load by moving a portion of short-term debt to long-term debt while maintaining the credit line limit at its present level and with a grace period on the repayment of long-term debt. A third action being pursued is converting the MWH notes payable to foreign banks to long-term debt. This would be accomplished by obtaining a long-term loan from the Latin American Agribusiness Development Corporation (LAAD) and using the proceeds to pay off the foreign lines of credit. LAAD is an organization specializing in the financing of projects in underdeveloped countries and has agreed to meet with Company management as regards our operation in Honduras. If the loan is approved, MWH's interest expense would be cut almost in half and a two year grace period on the repayment of the loan will be included. Management believes these actions are needed and would greatly ease the cash flow burden for the better part of nine months giving the economy time to recover and the Company time to build up adequate working capital without an increase to the total debt load.

The Company's notes payable increased approximately \$146,000 as a result of additional borrowings by MWH to finance the increased inventory levels associated with a manufacturing operation and new product lines, and for other working capital purposes. The bank borrowings of MWH have

increased by \$230,000, while the parent company paid down on its line of credit approximately \$86,000.

Accounts payable and other current liabilities are up approximately \$246,000. This increase is due primarily to significant raw material purchases by Wellington Hall Caribbean Corporation (WHCC) in the U.S.A., with subsequent export of these raw materials to the Honduran facilities for use in the production of the line of bedroom and dining room furniture. In addition, payments to vendors have slowed somewhat due to the poor cash flow from operations resulting in a higher liability balance.

The Company's long-term debt plus current maturities decreased approximately \$87,154 as a result of payments against the indebtedness during the nine months.

On January 30, 1992, Hoyt Hackney, President and Chief Executive Officer, exercised options and awards for 180,000 shares of common stock at the option price of \$.80 per share resulting in a net increase in common stock of \$144,000. This increase was accomplished by cash of \$40,000 being paid over to the Company along with the issuance of a demand note to the Company by Hoyt Hackney of \$104,000. The note receivable-officer is collateralized by the assignment of the interest the officer has in the Company's deferred compensation accrual account.

Three and Nine Months Ended January 31, 1992 Compared to Three and Nine Months Ended January 31, 1991.

Consolidated net sales for the third quarter decreased approximately \$9,000 to \$1,438,592, a decrease of .6%, while sales for the nine-month period increased approximately \$178,000 or 4.1%. Domestic sales by the parent company for the third quarter of fiscal 1992 were approximately \$1,032,000, a decrease of approximately \$205,000 or 16.5% over the corresponding quarter in fiscal 1991. Domestic sales for the current nine months were approximately \$3,509,000, a decrease of approximately \$400,000 or 10.2% from the previous nine-month period of fiscal 1991, a year when the recession was already in full swing. Given the low rate of incoming orders, management had no choice but to curtail production by shutting down the plant on occasion and by cutting back planned work week hours. On the other hand, subsidiary sales for the nine months ended January 31, 1992 by WHCC and MWH, after elimination of intercompany sales, were approximately \$985,000, an increase of approximately \$578,000 over the same prior nine-month period. Incoming orders for domestic production during the third quarter and nine-month period were \$1,254,000 and \$3,768,000 respectively compared to \$1,029,000 and \$3,394,000 realized the previous year. The orders received during the third quarter are well

below the required level necessary to maintain profitable production and sales. One bright spot, aggressive promoting of our product resulted in sales orders during January and February, 1992 of approximately \$511,000 and \$454,000, respectively. It is too early to tell if this marks a turnaround in the economy but the improved rate of incoming orders is encouraging. The backlog of orders for the Company's domestic product at January 31, 1992 increased approximately 4.3% from the previous quarter. Compared to the previous fiscal year's third quarter, the backlog of domestic orders of \$1,247,000 at January 31, 1992 dropped approximately \$27,000 or 2%. This backlog without a significant increase in the rate of incoming orders is not adequate to allow profitable operations. Subsidiary sales orders, net of intercompany requirements, amounted to approximately \$348,000 and \$1,086,000 for the third quarter and nine months ended January 31, 1992, respectively. This \$1,086,000 represents an increase of approximately \$453,000 or 72% over the prior corresponding nine-month period. The backlog of orders for WHCC and MWH, excluding intercompany orders, at January 31, 1992 was approximately \$730,000, an increase of approximately \$372,000 over the January 31, 1991 backlog. This backlog of \$730,000 is approximately \$60,000 higher than the backlog at fiscal year end levels. The line of bedroom furniture made in Honduras has been well received. This line along with a complimentary line of dining room furniture to be produced by the Honduran facilities will have a significant impact on profits during fiscal 1992.

Cost of sales increased approximately \$161,000 or 5.1% during the nine months compared to the first nine months of fiscal 1991. Domestic production has fallen by approximately \$661,000 or 16% over the same prior nine-month period. Although direct labor and overhead expenses of the parent company are down on a comparative basis, they are not down sufficiently to offset the drop in production. Layoffs, work stoppages, reduced work weeks will necessarily intensify unless some solution is found to the economic recession in the U.S.A.

Selling, general and administrative expenses were down by approximately \$2,000 or .5% and up approximately \$17,000 or 1.7% respectively, for the three-month and nine-month periods. The increases directly relate to the increased expenses of WHCC which shows a significant rise in sales commissions due to its line of Honduran produced bedroom furniture and shows a formula based bonus accrual on profits attributed to the subsidiary. The parent company's expenses have been held in check primarily through personnel reductions.

Interest expense for the nine-month period increased by approximately \$80,000 or 38% due to increased borrowings, both long-term, through Overseas Private Investment

Corporation (OPIC), and short-term, through the lines of credit. Proceeds were used to finance working capital needs and the capital expenditure program for the Honduran facilities.

The operating loss of approximately \$119,000 for the current nine months compares unfavorably to the operating income of approximately \$14,000 for the corresponding nine months of the previous fiscal year. Profitable operations of the subsidiaries are not enough to offset the nine-month loss of the domestic parent of approximately \$402,000. Only an economic recovery in the U.S. furniture market will return the domestic operations to a profitable status.

State income taxes of \$13,100 have been provided for on the books of WHCC which shows a profit for the nine months. The subsidiary, WHCC, files a consolidated federal return with its parent company, thus no federal income tax is provided for on the nine-month consolidated loss.

The net loss for the first nine months of fiscal 1992 of approximately \$133,000 as opposed to the net income of approximately \$11,000 for the corresponding period of fiscal 1991, indicates no let up in the recession gripping the U.S. economy. Management can only hope for a turnaround in 1992, while coping with the existing situation.

PART II

Other Information

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits filed: None
- (b) Reports on Form 8-K filed during the quarter ended January 31, 1992: None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WELLINGTON HALL, LIMITED
(Registrant)

DATE 3/10/92

By: [Signature]
Hoyt M. Haguney, Jr., President and
Chief Executive Officer

DATE 3/10/92

By: Jeff P. Lookabill
Jeff P. Lookabill
Controller (Chief Accounting Officer)